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花 樣 年

FANTASIA

Fantasia Holdings Group Co., Limited

花樣年控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1777)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Please refer to the attached offering memorandum (the “**Offering Memorandum**”) in relation to the issuance of US\$200,000,000 senior notes due 2022 (to be consolidated and form a single series with the US\$300,000,000 7.95% senior notes due 2022 issued on 5 July 2017) by Fantasia Holdings Group Co., Limited, which is available on the website of the Singapore Exchange Securities Trading Limited on 17 August 2020.

The posting of the Offering Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.10B of the Listing Rules, and not for any other purposes.

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

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

By order of the Board
Fantasia Holdings Group Co., Limited
Pan Jun
Chairman

Hong Kong, 17 August 2020

As at the date of this announcement, the executive Directors are Mr. Pan Jun, Ms. Zeng Jie, Baby, Mr. Ke Kasheng, Mr. Zhang Huiming and Mr. Chen Xinyu; and the independent nonexecutive Directors are Mr. Ho Man, Dr. Liao Jianwen, Ms. Wong Pui Sze, Priscilla, JP and Mr. Guo Shaomu.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN THE UNITED STATES

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

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Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so. The securities referred to in the attached document have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or under any securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

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

CONFIRMATION OF YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT, INVESTORS MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO BARCLAYS BANK PLC¹, BNP PARIBAS², DEUTSCHE BANK AG, SINGAPORE BRANCH, UBS AG HONG KONG BRANCH³ AND HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED (THE "INITIAL PURCHASERS") THAT YOU (I) ARE OUTSIDE THE UNITED STATES, AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT ("REGULATION S"), IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

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

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PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA") or in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "Prospectus Regulation"). 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 or in the UK has been prepared and therefore offering or selling the Additional Notes or otherwise making them available to any retail investor in the EEA or in the UK 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 falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, the securities described in the attached document are only available to, and any investment or investment activity to which the attached document relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached document or any of its contents.

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 Additional 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).

1. Barclays Bank PLC is a public limited company incorporated in England and Wales with limited liability.
2. BNP Paribas is a public limited company (société anonyme) incorporated in France. The liability of its members is limited.
3. UBS AG is incorporated in Switzerland with limited liability



FANTASIA HOLDINGS GROUP CO., LIMITED

(incorporated in the Cayman Islands with limited liability)

US\$200,000,000

7.95% Senior Notes due 2022

(to be consolidated and form a single series with the US\$300,000,000

7.95% Senior Notes due 2022 issued on July 5, 2017)

Issue Price:99.935%

plus accrued interest from (and including) July 5, 2020 to (but excluding) August 14, 2020

The 7.95% Senior Notes due 2022 in the aggregate principal amount of US\$200,000,000 (the "Additional Notes") will be issued by Fantasia Holdings Group Co., Limited (the "Company") and will be consolidated and form a single series with the US\$300,000,000 7.95% Senior Notes due 2022 issued on July 5, 2017 (the "Original Notes" and, together with the Additional Notes and any other additional notes that may be issued from time to time under the Indenture (as defined below), the "Notes"). The terms and conditions of the Additional Notes are the same as those for the Original Notes in all respects except for the issue date and the issue price, and the Additional Notes and the Original Notes will vote together as one series on all matters with respect to the Notes. Upon issue of the Additional Notes, the aggregate principal amount of outstanding Notes will be US\$500,000,000.

The Additional Notes bear interest from July 5, 2020 at 7.95% per annum, payable on January 5 and July 5 of each year, beginning on January 5, 2021. The Notes will mature on July 5, 2022.

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

On or after July 5, 2020, we may on any one or more occasions redeem all or any part of the Notes, at the redemption price (expressed as percentages of principal amount) set forth in "Description of the Notes – Optional Redemption," plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the redemption date. At any time prior to July 5, 2020, we may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus a premium (as set out in the section entitled "Description of the Notes" of this offering memorandum) as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to July 5, 2020, we may redeem up to 35% of the Notes, at a redemption price of 107.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of capital stock of the Company. Upon the occurrence of a Change of Control Triggering Event (as defined in the Indenture), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

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

For a more detailed description of the Notes, see the section entitled "Description of the Notes" beginning on page 230.

Investing in the Additional Notes involves risks. See the section entitled "Risk Factors" beginning on page 20.

The Original Notes are listed and quoted on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Application has been made to the SGX-ST for the listing and quotation of the Additional Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees. Under the rules of the SGX-ST, the Notes, if traded on the SGX-ST, are required to be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, 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 US\$200,000.

The Additional 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 Additional Notes are being offered and sold 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."

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

It is expected that the delivery of the Additional Notes will be made on or about August 14, 2020 through the book-entry facilities of the Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"), against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Barclays

BNP PARIBAS

Deutsche Bank

UBS

Haitong International

The date of this offering memorandum is August 11, 2020

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

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

IN CONNECTION WITH THIS OFFERING, EACH INITIAL PURCHASER AS A STABILIZING 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 INITIAL PURCHASERS, 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 Additional Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) that is

material in the context of the offering of the Additional 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 Additional Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), the omission of which would, in the context of the offering of the Additional 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 Additional Notes. You should read this offering memorandum before making a decision whether to purchase the Additional Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

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

No representation or warranty, express or implied, is made by Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, Singapore Branch, UBS AG Hong Kong Branch and Haitong International Securities Company Limited (the “Initial Purchasers”) or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future.

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

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Additional 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”) or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Additional Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Additional Notes or otherwise making them available to any retail investor in the EEA or in the UK 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 falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”)), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “relevant persons”). In the United Kingdom, the securities described in the attached document are only available to, and any investment or investment activity to which the attached document relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached document or any of its contents.

Singapore

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

Where the Additional Notes are initially subscribed or purchased by (i) an institutional investor under Section 274 of the SFA, or (ii) a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, the Additional Notes may only be sold or transferred: (a) at any time, to an institutional investor under Section 274 of the SFA; (b) at any time, to a relevant person

defined in Section 275(2) of the SFA or to any person pursuant to an offer referred to in Section 275(1A) of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Additional 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 Additional Notes pursuant to an offer made under Section 275 of the SFA except:

- 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;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

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

We are not, and the Initial Purchasers is not, making an offer to sell the Additional 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 Additional 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 Additional 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 Additional 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 Additional Notes.

We reserve the right to withdraw the offering of the Additional Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Additional Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Additional Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Additional 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 Fantasia Holdings Group Co., Limited itself, or Fantasia Holdings Group Co., Limited 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 its directors and advisors, and neither we, the Initial Purchasers nor our or its 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”); all references to “S\$” are to Singapore dollars, the official currency of the Republic of Singapore; and all references to “CNY,” “RMB” or “Renminbi” are to 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. dollars were made at the rate of RMB6.9618 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, 2019, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7894 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, 2019. 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.

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.

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

Unless the context otherwise requires, references to “2017,” “2018” and “2019” in this offering memorandum are to our financial years ended December 31, 2017, 2018 and 2019, respectively.

References to the “2010 Notes” are to our 14% Senior Notes due 2015, which matured and were fully repaid on May 12, 2015.

References to the “2012 Notes” are to our 13.75% Senior Notes due 2017, which matured and were fully repaid on September 27, 2017.

References to the “January 2013 Notes” are to our 10.75% Senior Notes due 2020, which was fully redeemed on November 27, 2019.

References to the “May 2013 Notes” are to our 7.875% Senior Notes due 2016, which matured and were fully repaid on May 27, 2016.

References to the “2014 Notes” are to our 10.625% Senior Notes due 2019, which were fully redeemed on January 23, 2017.

References to the “2015 Notes” are to our 11.50% Senior Notes due 2018, which matured and were fully repaid on June 1, 2018.

References to the “May 2016 Notes” are to our 9.50% Senior Notes due 2019, which matured and were fully repaid on May 4, 2019.

References to the “October 2016 Notes” are to our 7.375% Senior Notes due 2021.

References to the “June 2017 Notes” are to our 5.50% Senior Notes due 2018, which matured and were fully repaid on June 12, 2018.

References to the “July 2017 Notes” are to our 7.95% Senior Notes due 2022.

References to the “February 2018 Notes” are to our 7.25% Senior Notes due 2019, which were fully repaid in February 2019.

References to the “March 2018 Notes” are to our 8.375% Senior Notes due 2021.

Reference to the “June 2018 Notes” are to our 8.5% Senior Notes due 2019, which were exchanged into the First December 2018 Notes (see definition below).

Reference to the “July 2018 Notes” are to our 12.0% Senior Notes due 2019, which were fully redeemed in July 2019.

Reference to “First December 2018 Notes” are to our 12.0% Senior Notes due 2020, which matured and were fully repaid on June 17, 2020.

Reference to “Second December 2018 Notes” are to our 15.0% Senior Notes due 2021.

Reference to “March 2019 Notes” are to our 11.875% Senior Notes due 2020.

Reference to “April 2019 Notes” are to our 11.75% Senior Notes due 2022.

Reference to “July 2019 Notes” are to our 12.25% Senior Notes due 2022.

Reference to “January 2020 Notes” are to our 10.875% Senior Notes due 2023.

Reference to “June 2020 Notes” are to our 11.875% Senior Notes due 2023.

Reference to “July 2020 Notes” are to our 9.25% Senior Notes due 2023.

References to the “2015 Onshore Bonds” are to our 6.95% domestic corporate bonds issued on September 18, 2015.

References to the “2016 Onshore Bonds” are to our 7.29%, 6.7% and 7.5% domestic corporate bonds issued on January 4, 2016, January 29, 2016 and May 20, 2016, respectively. We issued further tranches of non-public domestic corporate bonds on August 17, 2016 and August 23, 2016 of RMB1.3 billion and RMB0.3 billion with an interest rate of 7.20% and 7.30% per annum, respectively.

References to the “2017 Onshore Bonds” are to our 7.0% domestic corporate bonds issued on November 10, 2017 by Shenzhen Colour Life Services Group Co., Limited (深圳市彩生活服務集團有限公司)(“Shenzhen Colour Life”).

References to the “2019 Onshore Bonds” are to our 8.2% domestic corporate bonds issued on July 3, 2019 by Fantasia Group (China) Co., Limited (花樣年集團(中國)有限公司)(“Fantasia Group China”).

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.1, in our share capital.

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. All site area and gross floor area (“GFA”) information presented in this offering memorandum represent the site area and GFA of the entire project, including those attributable to the minority shareholders of our non-wholly owned project companies.

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 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, 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, a land grant contract refers to a state-owned land use rights grant contract (國有土地使用權出讓合同) between a developer and the relevant PRC governmental land administrative authorities, typically the local state-owned land bureaus.

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

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

SUMMARY

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

Overview

We are a leading property developer and property related service provider in China. We first commenced our property development business in Shenzhen in 1996. Leveraging our broad experience and capabilities, we have successfully expanded into, and currently focus our real estate activities in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and the Central China Economics Area. For more than ten consecutive years from 2009 to 2019, we have members of our Group ranked among the China Top 100 Real Estate Developers (中國房地產百強企業) and the China Top 100 Property Management Companies (中國物業服務百強企業) by the China Real Estate Top 10 Research Team (中國房地產 Top 10 研究組). We are also recognized as of the “2019 China Top 100 Real Estate Enterprises – Top 10 in Financing Capacity” by the Enterprise Research Institute of Development Research Centre of the State Council, Institute of Real Estate Studies of Tsinghua University and China Index Academy. Over the years, we have received numerous other accolades in recognition of our property development, real estate management and services capabilities.

Our target customers are affluent middle-to upper-class individuals and families and fast growing small- to medium-sized enterprises. We envisage that the demand for properties designed for these customers will increase as such customers’ household income and purchasing power continue to rise. To cater to the diverse needs of our target customers, we have developed a portfolio of property development projects with a focus on the following:

- *Urban Complexes*

Our urban complexes are mostly located in the peripheral areas of existing central business districts in major cities such as Shenzhen and Chengdu or in the emerging new business districts designated under city development plans of local governments. These complexes integrate various types of properties, such as offices, apartments, retail shops and/or boutique hotels, into a single property development project.

- *Boutique Upscale Residences*

Our boutique upscale residences are located in urban and suburban areas with natural scenic surroundings or cultural landmarks. They are connected by roads or expressways to the centers of major metropolitan areas. These boutique upscale residences include high- and low-rise apartment buildings, townhouses and stand-alone houses and cater to the residential and investment needs of our high-end consumers. We typically develop our boutique upscale residential projects in several phases so that we can manage our capital resources more efficiently and increase the average selling price as the project becomes more developed and attractive to our customers.

As of December 31, 2019, our portfolio of land bank consisted of approximately 61.6% of boutique upscale residences, 29.7% of urban complexes and 8.7% of mid-to-high end residences in terms of GFA. We plan to continue to focus our property development activities on developing a portfolio of products that caters to our target customers across some of China’s most economically prosperous regions. We plan to achieve this objective by continuing to selectively acquire low-cost land

in the regions. We conduct comprehensive and in-depth market research and analysis on the land that we intend to acquire and the surrounding areas. We consider the geographic as well as marketing factors when evaluating a target parcel, including development potentials, size and suitability of the land for developments that can fit into our existing portfolio, convenience and availability of infrastructure support, purchasing power of our potential customers in relevant areas, development costs and the estimated return on investment. We budget for the cost of land acquisition as well as the overall development costs, which are subject to strict internal procedures and are closely monitored and adjusted throughout the construction process. Acquisition proposal is reviewed and approved by the relevant personnel of our Group, including our chief executive officer and our board of directors. We usually acquire land using our own capital within a pre-set budget and arrange project loans with banks in China at a later stage to support the subsequent development of the property.

In addition to our property development business, we also provide property operation services, property agency services and hotel services to our own properties and properties of third parties. In February 2011, we disposed of our entire 85% equity interests in Shenzhen Xingyan Property Consultancy Company Limited (深圳市星彥地產顧問有限公司), our subsidiary engaged in the provision of property agency services, to concentrate on our main business, but we still maintain secondary property brokerage services as a value-added service in the property operation services business. We believe our property related services enable us to strengthen our property development capabilities. For example, our property operation services enhance the value of our properties. In June 2014, Colour Life Services Group Co., Limited (“**Colour Life**”), was listed on the Hong Kong Stock Exchange as part of our dual funding platforms strategy, which we believe enhanced our capital utilization efficiency and our ability to capitalize on our brand. We plan to continue to enhance such real estate services that we offer and to further enhance the intrinsic synergies between our real estate products and services. We will in particular focus on enhancing our property operation services and hotel services which we believe will serve as relatively stable and growing revenue sources to our Group on the one hand, and will continue to increase the attractiveness and the average selling price of the properties developed by us on the other.

As of December 31, 2019, we had a total of 65 projects or phases of projects at various stages of development (including completed projects, projects under development and projects held for future development), including 28 projects located in the Chengdu-Chongqing Metropolitan Area, eight projects located in the Guangdong-Hong Kong-Macao Greater Bay Area, 9 projects located in the Yangtze River Delta Metropolitan Area, 10 projects located in the Bohai Rim Metropolitan Area, nine projects located in Central China Metropolitan Area and one project located in Singapore.

As of December 31, 2019, we had a total land bank of approximately 11.2 million square meters, comprising an aggregate planned GFA of approximately 11.2 million square meters of properties for which we had fully paid the land premium and obtained land use rights (consisting of an aggregate planned GFA of approximately 7.3 million square meters of properties under development and an aggregate planned GFA of approximately 3.9 million square meters of properties held for future development for which we have obtained land use rights).

Of our total land bank as of December 31, 2019, approximately 6.2 million square meters, or 55.4%, were located in the Chengdu-Chongqing Metropolitan Area; approximately 1.0 million square meters, or 8.9%, were located in the Guangdong-Hong Kong-Macao Greater Bay Area; approximately 1.3 million square meters, or 11.6%, were located in the Yangtze River Delta Metropolitan Area; approximately 1.3 million square meters, or 11.6%, were located in the Bohai Rim Metropolitan Area; approximately 1.4 million square meters, or 12.5%, were located in Central China Metropolitan Area. We develop most of our properties, including properties that are currently under development, for sale but will hold certain of these developed properties for investment and hotel management purposes.

For the years ended December 31, 2017, 2018 and 2019, our revenue was RMB9,782.6 million, RMB13,986.1 million and RMB19,081.6 million (US\$2,740.9 million), respectively. Our revenue consisted of revenue derived from (i) the sales of our developed properties, (ii) the lease of investment properties, (iii) the provision of property agency and related services, (iv) the provision of property operation and related services, and (v) the provision of hotel management and related services. The following table sets forth our revenue for each of the components described above and the percentage of total revenue represented for the periods indicated with the fluctuations of the percentage due primarily to the different product mix delivered to customers in respective period:

	For the year ended December 31,						
	2017		2018		2019		
	(RMB)	(%)	(RMB)	(%)	(RMB)	(US\$)	(%)
		(unaudited)		(unaudited)		(unaudited)	(unaudited)
	(in thousands, except percentages)						
Property development	6,598,470	67.5	8,554,508	61.2	13,226,346	1,899,846	69.3
Property investment	243,187	2.5	252,509	1.8	199,778	28,696	1.0
Property agency services	57,967	0.6	129,666	0.9	94,332	13,550	0.5
Property operation services	2,015,378	20.6	4,157,566	29.7	4,665,570	670,167	24.5
Hotel services	134,033	1.4	135,700	1.0	123,478	17,737	0.6
Others	733,533	7.5	756,184	5.4	772,073	110,901	4.0
Total	<u>9,782,568</u>	<u>100.0</u>	<u>13,986,133</u>	<u>100.0</u>	<u>19,081,577</u>	<u>2,740,897</u>	<u>100.0</u>

As of December 31, 2019, Colour Life managed a total GFA of over 562.0 million sq.m. For the year ended December 31, 2019, the revenue of Colour Life Group accounted for 20.2% of our total revenue. The Colour Life Group has become increasingly important for us to withstand economic cycle risks and achieve stable profits.

Our Competitive Strengths

We believe that our primary competitive strengths are:

- property development portfolio strategically located across some of China's most economically prosperous regions;
- ability to acquire land at low cost;
- strong business model with track record of success;
- well-known brand name;
- strong value-accretion property development and service capabilities; and
- experienced and stable management team with proven track record supported by seasoned professional employees.

Our Business Strategies

Our business strategies are to:

- continue to expand in fast-growing economic regions in China and selectively acquire low-cost land;
- focus on further improving the intrinsic synergies of our real estate products and value-added services;

- continue to improve our property operation service and hotel service capabilities to further increase the attractiveness and value of our properties; and
- continue to promote our brand names.

Recent Developments

Issuance of the January 2020 Notes

On January 9, 2020, we issued 10.875% senior notes in an aggregate principal amount of US\$450 million, which will mature on January 9, 2023. See “Description of Other Material Indebtedness – January 2020 Notes” for details.

Tender Offer in Relation to the March 2018 Notes

On January 6, 2020, we offered to repurchase for cash (the “Tender Offer”) up to US\$450 million in aggregate principal amount of the March 2018 Notes. On January 15, 2020, we accepted for purchase part of the March 2018 Notes pursuant to the Tender Offer. Upon the completion of the Tender Offer on January 21, 2020, the March 2018 Notes in the aggregate principal amount of US\$520,001,000 remains outstanding.

Issuance of the June 2020 Notes

On June 1, 2020, we issued 11.875% senior notes in an aggregate principal amount of US\$300 million, which will mature on June 1, 2023. See “Description of Other Material Indebtedness – June 2020 Notes” for details.

Issuance of the July 2020 Notes

On July 28, 2020, we issued 9.25% senior notes in an aggregate principal amount of US\$350 million, which will be fully repayable by July 28, 2023. See “Description of Other Material Indebtedness – July 2020 Notes” for details.

Provision of Financial Assistance to Fantasy Pearl International Limited

On July 10, 2020, Fantasy Pearl International Limited, our controlling shareholder as borrower, entered into a facility agreement with a financial institution (the “Bank”), pursuant to which the Bank agreed to make available to Fantasy Pearl International Limited a loan in the amount of HK\$335,000,000 (the “Loan”). In connection with the Loan, on July 10, 2020, our Company and Splendid Fortune Enterprise Limited (耀偉富企業有限公司) (“Splendid Fortune”), a substantial shareholder of Colour Life, entered into an option agreement under which our Company granted to Splendid Fortune the right to require our Company to purchase the option shares of Colour Life which represented approximately 15.3% of the issued share capital of Colour Life as at the date of the option agreement, at the consideration of HK\$335,000,000. As security for the Loan, Splendid Fortune has assigned all of its rights under the option agreement to the Bank.

COVID-19 Pandemic

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Several cities in China where we have significant land bank and operations had imposed travel restrictions in an effort to curb the spread of the highly infectious COVID-19. The COVID-19 outbreak has affected our business operation and financial condition. During the three months ended March 31, 2020, our contracted sales declined as compared to the corresponding period in the prior year due to the impact of COVID-19. However, the PRC central and local governments have taken various measures to manage cases and reduce potential

spread and impact of infection, and further introduced various policies to boost the economy and stimulate the local property markets. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. The outbreak is however far from over, and in different countries, is showing signs of resurgence and further waves of infections are recorded everyday. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will persist and to what extent to which we may be affected. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected. See “Risk Factors—Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic.”

General Information

We were incorporated in the Cayman Islands on October 17, 2007, as an exempted company with limited liability. Our shares have been listed on the Stock Exchange of Hong Kong Limited since November 25, 2009. Our principal place of business in the PRC is at Block A, Shenzhen Funian Plaza, Intersection of Shihua Road and Zijing Road, Futian Free Trade Zone, Shenzhen 518048, Guangdong Province, China. Our place of business in Hong Kong is at Room 1202-03, New World Tower 1, 16-18 Queen’s Road Central, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is www.cnfantasia.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

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

Issuer	Fantasia Holdings Group Co., Limited (the “Company”).
Additional Notes offered	US\$200,000,000 aggregate principal amount of 7.95% Senior Notes due 2022 (the “Additional Notes”, to be consolidated and form a single series with the US\$300,000,000 7.95% Senior Notes due 2022 issued by the Company on July 5, 2017 (the “Original Notes” and, together with the Additional Notes, the “Notes”). The terms for the Additional Notes are the same as those for the Original Notes in all respects except for the issue date and issue price.
Offer Price	99.935% of the principal amount of the Additional Notes, plus accrued interest from (and including) July 5, 2020 to (but excluding) August 14, 2020.
Original Issue Date	July 5, 2017
Issue Date of Additional Notes	August 14, 2020.
Maturity Date	July 5, 2022.
Interest	The Additional Notes will bear interest from and including July 5, 2020 at the rate of 7.95% per annum.
Interest Payment Dates	January 5 and July 5 in each year, commencing January 5, 2021.
Ranking of the Notes	The Notes are: <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to certain limitations described under “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral” and “Description of the Notes – The Subsidiary Guarantees and JV Subsidiary Guarantors;”• effectively subordinated to the secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security the reform (other than the Collateral); and

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

Subsidiary Guarantees

Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

As of the date of this offering memorandum, the initial Subsidiary Guarantors are Fantastic Victory Limited, Wisdom Regal Limited, Fantasia Financial Community Group Co., Ltd. (花樣年社區金融集團有限公司), Fantasia Investment Holdings Company Limited, Joytime Investment Limited, Fantasia Financial Community Group (Hong Kong) Co., Limited (花樣年社區金融集團(香港)有限公司) and Hong Kong Huawanli Trading Co., Ltd.. Other than the initial Subsidiary Guarantors, none of the Company’s other Restricted Subsidiaries organized outside of the PRC, the Unrestricted Subsidiaries and the PRC Non-Guarantor Subsidiaries will be a Subsidiary Guarantor on the issue date of the Additional Notes.

All of the initial Subsidiary Guarantors are holding companies that do not have significant operations. See “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral – Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

Any future Restricted Subsidiary, as defined under “Description of the Notes – Certain Definitions” (other than subsidiaries organized under the laws of the PRC, Exempted Subsidiaries or Listed Subsidiaries), will guarantee the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor as soon as practicable after it becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary. Notwithstanding the foregoing, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (other than Exempted Subsidiaries or Listed Subsidiaries) do not account for more than 20% of the Total Assets of the Company.

A Subsidiary Guarantee may be released or replaced in certain circumstances. See “Description of the Notes – The Subsidiary Guarantees – Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.” In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may (i) release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, (ii) discharge the pledge of the Capital Stock granted by such Subsidiary Guarantor, and (iii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such Subsidiary Guarantor, *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the Subsidiary Guarantors whose Subsidiary Guarantees were released) (other than Exempted Subsidiaries or Listed Subsidiaries) 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 secured obligations (if any) of such Subsidiary Guarantor, to the extent of the value of the assets serving as security the reform (other than the Collateral);
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

Subject to certain limitations described under “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and Collateral,” the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor will:

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

Ranking of JV Subsidiary

Guarantees

A JV Subsidiary Guarantee instead of a Subsidiary Guarantee may be provided by a Subsidiary Guarantor concurrently with the consummation of (x) a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in such Subsidiary Guarantor, where such sale is for no less than 20% of the issued Capital Stock of such Restricted Subsidiary or (y) a purchase of the Capital Stock of an Independent Third Party such that it becomes a Subsidiary and is designated a Restricted Subsidiary. 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;
- be enforceable only up to the JV Entitlement Amount;
- be effectively subordinated to secured obligations (if any) of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- 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 of such JV Subsidiary Guarantee; and
- be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

Security to be Granted

The Company has, for the benefit of the holders of the Notes, pledged, and the initial Subsidiary Guarantor Pledgors have pledged, as the case may be, the Capital Stock of each initial Subsidiary Guarantor (collectively, the “Collateral”) in order to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Collateral will be shared on a *pari passu* basis pursuant to the Intercreditor Agreement, as supplemented, entered into by the holders of the Existing *Pari Passu* Secured Indebtedness, the holders of the Notes and the holders of other Permitted *Pari Passu* Secured Indebtedness (subject to conditions of completion and accession to the Intercreditor Agreement) on the date the Notes are issued. See “Description of the Notes – Security.”

Intercreditor Agreement

The Company, the Subsidiary Guarantor Pledgors, the Collateral Agent, the trustee for the 2012 Notes and the trustee for the 2010 Notes entered into an intercreditor agreement dated September 27, 2012, to which the trustee for the January 2013 Notes acceded on January 22, 2013, the trustee for the May 2013 Notes acceded on May 27, 2013, the trustee for the 2014 Notes acceded on January 23, 2014, the trustee for the 2015 Notes acceded on June 1, 2015, the trustee for the May 2016 Notes acceded on May 4, 2016, the trustee for the October 2016 Notes acceded on October 4, 2016, the trustee for the June 2017 Notes acceded on June 13, 2017, the trustee for the July 2017 Notes acceded on July 5, 2017, the trustee for the February 2018 Notes acceded on February 14, 2018, the trustee for the March 2018 Notes acceded on March 8, 2018, the trustee for the June 2018 Notes acceded on June 5, 2018, the trustee for the July 2018 Notes acceded on July 16, 2018, the trustee for the First December 2018 Notes acceded on December 17, 2018, the trustee for the Second December 2018 Notes acceded on December 18, 2018, the trustee for the March 2019 Notes acceded on March 11, 2019, the trustee for the April 2019 Notes acceded on April 17, 2019, the trustee for the July 2019 Notes acceded on July 18, 2019, the trustee for the January 2020 Notes acceded on January 9, 2020, the trustee for the June 2020 Notes acceded on June 1, 2020, the trustee for the July 2020 Notes acceded on July 28, 2020 and the trustee for other senior notes issued by the Company prior to the Original Issue Date, the holders of which share the Collateral on a *pari passu* basis with the holders of the Notes and the holders of the other Existing *Pari Passu* Secured Indebtedness, acceded on the issue date of such senior notes. Citicorp International Limited, as trustee with respect to the 2010 Notes, was released as a secured party to the Intercreditor Agreement after the 2010 Notes were repaid in full at maturity on May 12, 2015. Citicorp International Limited, as trustee to the May 2013 Notes, was released as a secured party to the Intercreditor Agreement after the May 2013 Notes matured and were redeemed in full on May 27, 2016. Citicorp International Limited, as trustee with respect to the 2014 Notes, was released as a secured party to the Intercreditor Agreement after the 2014 Notes were redeemed in full on January 23, 2017. Citicorp International Limited, as trustee with respect to the 2012 Notes, was released as a secured party to the Intercreditor Agreement after the 2012 Notes matured and were repaid in full on September 27, 2017. Citicorp International Limited, as trustee with respect to the 2015 Notes, was released as a secured party to the Intercreditor Agreement after the 2015 Notes matured and were repaid in full on June 1, 2018. Citicorp International Limited, as trustee with respect to the June 2017 Notes, was released as a secured party to the Intercreditor Agreement after the June 2017 Notes matured and were repaid in full on June 12, 2018. Citicorp International Limited, as trustee with respect to the June 2018 Notes, was released as a

secured party to the Intercreditor Agreement after the June 2018 Notes were fully tendered and exchanged into the First December 2018 Notes on December 17, 2018. Citi International Limited, as trustee with respect to the February 2018 Notes, was released as a secured party to the Intercreditor Agreement after the February 2018 Notes matured and were repaid in full on February 13, 2019. Citi International Limited, as trustee with respect to the July 2018 Notes, was released as a secured party to the Intercreditor Agreement after the July 2018 Notes matured and were repaid in full on July 15, 2019. Citi International Limited as trustee with respect to the January 2013 Notes, was released as a secured party to the Intercreditor Agreement after the January 2013 Notes was redeemed in full on November 27, 2019. The trustee for the Notes has acceded to the Intercreditor Agreement on the Original Issue Date, which provides that the security interests held in the Collateral will be shared on a *pari passu* basis 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.

Use of Proceeds The Company intends to use the proceeds from this offering to refinance certain of its offshore existing indebtedness that are due within one year. See “Use of Proceeds”.

Optional Redemption On or after July 5, 2020, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption price (expressed as percentages of principal amount) set forth in “Description of the Notes – Optional Redemption,” plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the redemption date.

At any time prior to July 5, 2020, 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 under “Description of the Notes”) 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 July 5, 2020, the Company may redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

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, 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 (including any Additional Amounts), 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 or certain other circumstances. See “Description of the Notes – Redemption for Taxation Reasons.”

Covenants The Notes, the Indenture 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 Additional Notes will not be registered under the U.S. 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 Additional 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.
 Clearance and Settlement	 The Additional Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants, including Euroclear and Clearstream. For a description of certain factors relating to clearance and settlement, see “Description of the Notes – Book-Entry; Delivery and Form.”
 Delivery of the Notes.	 The Company expects to make delivery of the Additional Notes, against payment in same-day funds on or about August 14, 2020 which the Company expects will be the third business day following the date of this offering memorandum referred to as “T+3”. You should note that initial trading of the Additional Notes may be affected by the T+3 settlement.
 Trustee	 Citicorp International Limited.
 Paying and Transfer Agent and Note Registrar	 Citibank N.A., London Branch.
 Collateral Agent	 Citicorp International Limited.
 Listing.	 The Original Notes are listed and quoted on the SGX-ST. Application has been made to the SGX-ST for the listing and quotation of the Additional Notes on the SGX-ST. Under the rules of the SGX-ST, the Notes, if traded on the SGX-ST, are required to be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, 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 US\$200,000.
 Ratings	 The Original Notes are rated B by Standard and Poor’s Rating Services and B3 by Moody’s Investors Service and we do not expect the rating to change as a result of the issuance of the Additional Notes. We cannot assure investors that these rating will not be adversely revised or withdrawn either before or after delivery of the Additional Notes.

Governing Law The Additional 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 Additional Notes, see “Risk Factors.”

Security Codes	<u>ISIN</u>	<u>Common Code</u>
	XS1640676885	164067688

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of comprehensive income data for 2017, 2018 and 2019 and the summary consolidated statement of financial position data as of December 31, 2016, 2017, 2018 and 2019 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Deloitte Touche Tohmatsu (“Deloitte”), the independent certified public accountants, and included elsewhere in this offering memorandum. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Comprehensive Income and Other Financial Data

	For the year ended December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
	(in thousands)			
Revenue	9,782,568	13,986,133	19,081,577	2,740,897
Cost of sales and services	(6,884,964)	(9,802,167)	(13,744,216)	(1,974,233)
Gross profit	2,897,604	4,183,966	5,337,361	766,664
Other income, gains and losses	1,009,049	711,522	1,329,347	190,949
Impairment losses net of reversal	(62,012)	(82,424)	(139,628)	(20,056)
Change in fair value of investment properties	966,184	136,802	(6,165)	(886)
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	118,589	82,409	(1,110)	(159)
Selling and distribution expenses	(417,872)	(439,032)	(469,538)	(67,445)
Administrative expenses	(1,167,835)	(1,389,214)	(1,361,840)	(195,616)
Finance costs	(1,279,587)	(1,464,674)	(1,831,761)	(263,116)
Share of results of associates	8,843	34,880	10,738	1,542
Share of results of joint ventures	167,670	(11,140)	(29,626)	(4,256)
Gain on disposal of subsidiaries	326,285	1,273,824	944,903	135,727
Profit before taxation	2,566,918	3,036,919	3,782,681	543,348
Income tax expense	(1,157,207)	(1,868,735)	(2,280,776)	(327,613)
Profit for the year/period	<u>1,409,711</u>	<u>1,168,184</u>	<u>1,501,905</u>	<u>215,735</u>
Profit for the year attributable to:				
Owners of the Company	1,154,316	728,339	873,644	125,491
An owner of perpetual capital instrument	–	–	–	–
Other non-controlling interests	255,395	439,845	628,261	90,244
	<u>1,409,711</u>	<u>1,168,184</u>	<u>1,501,905</u>	<u>215,735</u>
Other Financial Data (unaudited)				
EBITDA ⁽¹⁾	3,971,648	5,915,265	8,687,512	1,247,883
EBITDA margin ⁽²⁾	41%	42%	46%	46%

Notes:

- (1) EBITDA for any period primarily consists of profit from operating activities before change in fair value of investment properties, option derivatives and certain financial assets, impairment loss recognized in respect of goodwill, net finance cost plus income tax, depreciation and amortization expenses. Finance cost includes those interest expense previously capitalized as assets and currently released to cost of sales and services in the consolidated statement of profit or loss and other comprehensive income. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for a reconciliation of our profit 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. See the section entitled "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statement of Financial Position

	As of December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Non-current Assets				
Property, plant and equipment	2,611,084	2,596,806	2,172,059	311,997
Right-of-use assets	–	–	1,049,134	150,699
Investment properties	10,194,164	10,515,977	11,924,404	1,712,833
Interests in associates	1,174,908	1,346,586	757,497	108,808
Interests in joint ventures	1,060,057	1,426,958	2,686,998	385,963
Available-for-sale investment	117,663	–	–	–
Equity instruments designated at FVTOCI	–	51,551	60,086	8,631
Goodwill	2,299,758	2,339,723	2,398,921	344,583
Intangible assets	1,319,901	1,188,896	1,129,725	162,275
Prepaid lease payments	754,720	206,743	–	–
Premium on prepaid lease payments	1,268,992	76,418	–	–
Other receivables	167,624	158,698	610,511	87,694
Contract assets	–	–	22,229	3,193
Amount due from related parties	–	81,505	958,190	137,635
Pledged bank deposits	–	558,457	547,500	78,643
Deposits paid for acquisition of subsidiaries and investment in associates and joint ventures	799,606	194,427	852,027	122,386
Deposits paid for acquisition of a property project	159,214	202,961	–	–
Deposit paid for acquisition of land use rights	118,103	228,703	–	–
Deferred tax assets	461,990	565,707	710,650	102,078
	<u>22,507,784</u>	<u>21,740,116</u>	<u>25,879,931</u>	<u>3,717,419</u>
Current Assets				
Inventories	194,655	544,407	117,177	16,831
Properties for sale	23,777,966	34,882,404	35,473,562	5,095,458
Prepaid lease payments	18,228	6,750	–	–
Premium on prepaid lease payments	19,233	2,548	–	–
Contract assets	–	449,590	736,724	105,824
Contract costs	–	201,414	410,502	58,965
Trade and other receivables	4,129,404	5,938,028	7,864,902	1,129,722
Tax recoverable	85,990	105,212	337,503	48,479
Financial assets at fair value through profit or loss	234,460	2,127,196	1,449,051	208,143
Amount due from a joint venture	–	–	–	–
Amount due from associates	–	–	–	–
Amount due from non-controlling shareholders of the subsidiaries of the Company	–	–	–	–
Amount due from related parties	1,547,393	436,411	832,459	119,575
Derivative financial instruments	–	–	–	–
Restricted/pledged bank deposits	2,106,552	1,789,411	2,117,174	304,113
Bank balances and cash	14,335,074	26,222,584	20,379,733	2,927,365
	<u>46,448,955</u>	<u>72,705,955</u>	<u>69,720,028</u>	<u>10,014,655</u>

	As of December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Current Liabilities				
Trade and other payables	9,282,468	10,393,583	8,398,790	1,206,411
Contract liabilities	–	13,039,071	19,160,338	2,752,210
Derivative financial instruments	–	–	13,759	1,976
Amount due related parties	–	356,189	843,853	121,212
Tax liabilities	4,431,080	5,504,651	6,347,498	911,761
Borrowings – due within one year	3,022,026	7,959,810	6,430,202	923,641
Lease liabilities	–	–	95,181	13,672
Obligations under finance leases	51,693	69,164	–	–
Senior notes and bonds	4,484,610	6,397,660	4,963,714	712,993
Assets backed securities issued	42,533	208,636	87,483	12,566
Provision	40,131	30,740	37,440	5,378
Other current liabilities	220	2,625	–	–
	<u>26,895,112</u>	<u>43,962,129</u>	<u>46,378,258</u>	<u>6,661,820</u>
Net Current Assets	<u>19,553,844</u>	<u>28,743,826</u>	<u>23,341,770</u>	<u>3,352,835</u>
Total Assets less				
Current Liabilities	<u>42,061,628</u>	<u>50,483,942</u>	<u>49,221,701</u>	<u>7,070,255</u>
Non-Current Liabilities				
Derivative tax financial instrument	–	–	18,945	2,721
Deferred tax liabilities	1,754,528	1,734,943	1,569,772	225,484
Borrowings – due after one year	6,841,619	11,195,744	7,555,160	1,085,231
Lease liabilities	–	–	349,215	50,162
Obligations under finance leases	259,299	236,880	–	–
Senior notes and bonds	15,320,332	17,810,083	19,119,556	2,746,352
Assets backed securities issued	185,204	51,783	17,065	2,451
	<u>24,363,597</u>	<u>31,029,433</u>	<u>28,629,713</u>	<u>4,112,401</u>
	<u>17,698,031</u>	<u>19,454,509</u>	<u>20,591,988</u>	<u>2,957,854</u>
Capital and Reserves				
Share capital	497,868	497,945	498,359	71,585
Reserves	12,139,049	12,465,583	13,237,883	1,901,503
Equity attributable to owners of the Company	12,636,917	12,963,528	13,736,242	1,973,088
Total non-controlling interests	5,061,114	6,490,981	6,855,746	984,766
	<u>17,698,031</u>	<u>19,454,509</u>	<u>20,591,988</u>	<u>2,957,854</u>

RISK FACTORS

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

Risks Relating to Our Business

We rely heavily on the strong performance of the property market in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China

Our growth in the past has benefited from the strong demand for properties in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China, where a majority of our past and current property development projects are located. As we intend to continue to focus our efforts in these regions, we will continue to depend in the near future on the continuous growth and performance of the property market in such regions. Market demand for residential and commercial properties and office spaces could be affected by various factors, including the general economic environment and any macro-economic control measures implemented by the PRC government, many of which are beyond our control. We cannot assure you that demand for or average selling prices or sales volume of our properties will continue to grow or remain at previous levels in the future. See “– We may be adversely affected by fluctuations in the global economy and financial markets.” Any adverse developments in the supply and demand of properties or in property prices in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China, could have a material adverse effect on our business, financial condition and results of operations.

Increasing competition in the PRC, particularly in the Chengdu-Chongqing and Pearl River Delta regions, may adversely affect our business and financial condition

Sales in the Chengdu-Chongqing and Pearl River Delta regions accounted for a significant portion of our total contracted sales in 2017, 2018 and 2019. In recent years, an increasing number of property developers have begun property development in Chengdu-Chongqing and Pearl River Delta regions and elsewhere in the PRC. These include overseas property developers (including a number of leading Hong Kong property developers), and developers from other parts of the PRC, some of which may have better track records and greater financial and other resources than us. The intensity of the competition between property developers for land, financing, raw materials and skilled management and labor resources, in regions or cities where we operate, in particular, in the Chengdu-Chongqing and Pearl River Delta regions, may result in increased costs for the acquisition of land for development, an oversupply of properties in certain parts of the PRC, including the Chengdu-Chongqing and Pearl River Delta regions, a decrease in property prices and a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, any of which may adversely affect our business and financial position. In addition, the property market in the Chengdu-Chongqing and Pearl River Delta regions and elsewhere in the PRC is rapidly changing. If we cannot respond to changes in market conditions more swiftly or more effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

We may not have adequate capital resources to fund our land acquisitions and property developments

Property development is capital intensive. We principally fund our property developments from a combination of internal funds, borrowings from banks and other financial institutes, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and proceeds from issuance of equity and debt securities, such as our IPO in November 2009 and the issuances of our various senior notes. Our ability to secure sufficient financing for land acquisition and property development depends on a number of factors that are beyond our control, including market conditions in debt and equity capital markets, investors' perception of our securities, lenders' perception of our creditworthiness, the PRC economy and the PRC regulations that affect the availability and finance costs for real estate companies.

Various PRC regulations aimed at curtailing the property market and rising corporate debts may restrict our ability to raise capital through external financing, which may include not only the funding sources discussed above but also real estate trust and funds, and other methods, including without limitation, the following:

- we cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;
- PRC banks are prohibited from extending loans to real estate companies for the purposes of funding the purchase of land use rights;
- we cannot borrow from a PRC bank for a particular project unless we fund at least 20% of the estimated total capital required for that project from our own capital;
- we cannot borrow from a PRC bank for a particular project unless we obtain the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit for that project;
- PRC banks are restricted from granting loans for the development of luxury residential properties;
- property developers are strictly prohibited from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located; and
- PRC banks are prohibited from accepting properties that have been vacant for more than three years as collateral for loans.

In addition, PBOC has adjusted the reserve requirement ratio for commercial banks six times in 2010, seven times in 2011 and twice in 2012. The reserve requirement ratio for commercial banks currently ranges from 10.5% to 20% with effect from May 18, 2012. From January 2014 to February 2016, PBOC further adjusted the reserve requirement ratio eight times to the current ratio ranges from 15.0% to 16.5%. Changes in the reserve requirement ratio affect the amount of funds that banks must hold in reserve against deposits made by their customers. Increase in such reserve requirement ratio will reduce the amount of commercial bank credit available to businesses in China, including us. In November 2009, the PRC government raised the minimum down payment for land premiums to 50% and in March 2010, the Ministry of Land and Resources stipulated that the minimum down payment of land premium of 50% should be paid within one month after the signing of a land grant contract and the

rest of the land premium should be fully paid within one year after the signing of a land grant contract. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction.

The PRC government may introduce other measures that limit our access to additional capital. For example, in November 2007, China Banking Regulatory Commission (the “CBRC”) provided policy guidelines to the PRC banks and Chinese subsidiaries of foreign banks that loans outstanding as of December 31, 2007 should not exceed the level of outstanding loans as of October 31, 2007. This lending freeze may limit our ability to access additional loans or to rollover existing loans as they mature, and may also prevent or delay potential customers’ ability to secure mortgage loans to purchase residential properties.

We cannot assure you that we will be able to renew our current credit facilities or obtain sufficient funding to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost or at all. Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to commence new projects or to continue the development of existing projects. Such failure may also increase our finance costs.

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

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. In response to the COVID-19 pandemic, governments across the world have imposed travel restrictions and/or lockdown in order to contain the outbreak. The outbreak is however far from over, and in different countries, is showing signs of resurgence and further waves of infections are recorded everyday. There is no assurance that more countries will not tighten travel restrictions or lockdowns in response to the pandemic or that the current containment measures will be effective in halting the pandemic.

The ongoing pandemic and containment measures may adversely and materially affect the manufacturing, exports and imports and consumption of goods and services globally. The Caixin/Markit Manufacturing Purchasing Managers’ Index (“PMI”) recorded a reading of 40.3 in February 2020, indicating that China’s factory activity contracted in that month. Further, the Caixin/Markit Service PMI also indicated that services sectors contracted in China in February 2020. According to IHS Markit, the services sector in the U.S. also contracted in February 2020. There is no assurance that manufacturing and services sectors will not contract in other countries. The development of pandemic may adversely and materially affect economic growth globally due to reduce in demand and supply. On March 2, 2020 the Organization for Economic Cooperation and Development reduced 2020 GDP growth projects for almost all economies. Further, the pandemic may adversely and materially affect the stability of global financial markets. On March 9, 12 and 16, trading on the New York Stock Exchange were halted for 15 minutes because S&P 500 trading price reached 7% below prior day’s S&P 500 closing price. The unfolding pandemic may significantly reduce global market liquidity and depress economic activities.

Several cities in China where we have land bank and operations were under a lockdown and have imposed travel restrictions in an effort to curb the spread of the highly infectious coronavirus. As a result, sales offices and construction of our development projects were temporarily shut down. Moreover, supply of our raw materials and productivity of our employees may be adversely affected. As a result, the completion of our projects may be delayed and sales might be lower than expected, which might in turn result in substantial increase in our development costs, late delivery of properties and/or otherwise adversely affect our profitability and cash flows. Further, customers who have previously entered into contracts to purchase properties may default on their purchase contracts if the economic

situation further deteriorates as a result of the epidemic. In addition, the COVID-19 outbreak poses risks to the wellbeing of our employees and the safety of our workplace, which may materially and adversely affect our business operation. Our ability to adequately staff, manage and/or maintain daily operations may be adversely affected if the outbreak continues or further deteriorates. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will exist and the extent to which we may be affected. Furthermore, our properties or facilities may be required to be suspended or quarantined, if there were clusters for the COVID-19 cases in our properties or facilities or governmental ordinance to contain the outbreaks. Any of these circumstances will result in material adverse impact on our business, financial condition, results of operations, performance and prospects. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. However, there can be no assurance that this recovery momentum will continue in the future.

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

We may be adversely affected by fluctuations in the global economy and financial markets

The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn has affected the PRC real estate industry. For example:

- the economic slowdown and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings.

Global market and economic conditions have continued to be adversely affected by the ongoing credit crisis in Europe, the credit rating downgrade of the United States and heightened market volatility in major stock markets. Further, in the United Kingdom, a remain-or-leave referendum on its membership within the European Union was held in June 2016, the result of which favored the exit of the United Kingdom from the European Union (“Brexit”). On January 31, 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. The United Kingdom and the European Union will have a transition period until December 31, 2020 to negotiate, among others, trade agreements in details. Given the lack of precedent and uncertainty of the negotiation, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market.

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

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, home owners and potential property purchasers, which may lead to a decline in the general demand for our properties and erosion of their selling prices. In addition, any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. If the global economic slowdown and financial crisis continue or become more severe than currently anticipated, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Our business may be adversely affected by changes in interest rates

We rely on borrowings to finance a substantial part of our project developments. Currently, our borrowings primarily consist of loans from commercial banks in China. Many of our customers also need to finance their purchase of our properties through mortgage loans. Interest rates in the PRC have decreased several times recently. The PBOC has adjusted the benchmark one-year lending rate numerous times in the past in response to the changing PRC and global financial and economic conditions. The benchmark one-year lending rate is currently 4.35%. We cannot assure you that the PBOC will decrease the benchmark one-year lending rate or that the interest rates at which financing will be available to us or our customers will decrease in the future. In addition, we cannot predict if and when interest rate in the PRC may increase. Any increase in the interest rates will increase our finance costs and also increase the costs of our customers to purchase our properties with mortgages and therefore adversely affect our business, financial conditions and results of operation. See "– The terms on which mortgages are available, if at all, may affect our sales."

Our substantial indebtedness could have an adverse effect on our financial condition, diminish our ability to raise additional capital to fund our operations and limit our ability to explore business opportunities

We maintain a certain level of indebtedness to finance our operations. As of December 31, 2019, the outstanding balance of our total debt (including aggregate outstanding borrowings, our senior notes and onshore bonds) amounted to RMB38,068.6 million (US\$5,468.2 million). Since December 31, 2019, we also issued the January 2020 Notes, the June 2020 Notes and the July 2020 Notes. After the

completion of this offering, we and our subsidiaries may incur additional debt, including Renminbi denominated borrowings or debt securities in China. Our indebtedness described above could have an adverse effect on us, such as:

- requiring us to dedicate a large portion of our cash flow from operations to fund repayments on our debt, thereby reducing the availability of our cash flow to expand our business;
- increasing our vulnerability to adverse general economic or industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding;
- restricting us from making strategic acquisitions or exploring potential business opportunities; and
- making it more difficult for us to satisfy our obligations with respect to our debt.

We have incurred and will continue to incur a significant amount of finance costs in relation to our indebtedness. A significant portion of our finance costs are capitalized rather than being expensed at the time it is incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Our Results of Operations – Access to and Cost of Financing.”

In addition, as our indebtedness will require us to maintain an adequate level of cash flow from operations to satisfy our debt obligations as they become due, any decrease in our cash flow from operations in the future may have a material and adverse effect on our financial condition.

We may not always be able to obtain land sites that are suitable for property development within our budget

We derive a significant portion of our revenue from sales of properties that we have developed. This revenue stream depends on the completion of, and our ability to sell, our properties. To maintain or grow our business in the future we will need to replenish our land reserves with suitable development sites. Our ability to identify and acquire suitable land sites is subject to a number of factors, some of which are beyond our control. Our business, financial condition and results of operations may be materially and adversely affected if we are unable to obtain land sites for development at prices that allow us to achieve reasonable returns upon the sale of developed properties to our customers.

The PRC government controls all new land supply in the PRC and regulates land sales in the secondary market. As a result, the policies of the PRC government towards land supply may adversely affect our ability to acquire land use rights for sites we seek to develop and could increase the costs of any acquisition. The PRC central and local governments may regulate the means by which property developers, including us, obtain land sites for property developments. In recent years, the PRC government has promulgated policies that restrict banks from granting loans to finance the construction of luxury residential properties and limit or prohibit the supply of land available for projects such as villa-style developments, low density housing developments and golf courses. Although we will continue to seek suitable development opportunities, the current or future regulatory climate may restrict

our ability to engage in such developments in the future. See also “– Risks Relating to Our Industry – PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business.”

We have entered into several preliminary framework agreements for potential new property development projects which are subject to significant risks and uncertainties

As of December 31, 2019, we had entered into certain framework agreements in relation to acquisition of parcels of land with third parties or with local governments in which the projects are located. There are significant risks with respect to these potential new projects as further agreements are required to be entered into in order for us to obtain the respective land use rights for the land parcels specified in the preliminary framework agreements. In addition, in order to obtain the land use rights for some of these potential new projects, we will be required to go through public tender, auction or listing-for-sale processes in accordance with the relevant PRC regulations. We may not be able to successfully obtain the land use rights for the lands specified in the preliminary framework agreements through such processes or obtain the land use rights that can be used for the same purpose as those indicated in the preliminary framework agreements. If we fail to obtain the land use rights certificates for these parcels of land or other parcels of land in which we may acquire an interest in the future, we will not be able to develop and sell properties on such land. We may not be able to acquire replacement parcels of land on terms acceptable to us, or at all, which could have a material adverse effect on our future prospects, business, financial condition and results of operations.

Further, we may not be able to enter into future agreements to obtain the land parcels due to reasons that are beyond our control. Changes in the PRC regulatory environment or policies or changes in the general economic environment or property market in China may result in the other parties’ unwillingness or inability to implement the transactions contemplated under the preliminary framework agreements, or result in changes to the general understanding of the preliminary framework agreements that may be adverse to us, including changes in the price of the land use rights to the specified land parcels. The preliminary framework agreements may not be considered as enforceable by the relevant PRC courts for the purpose of entering into future agreements to obtain the relevant land parcels. If we cannot obtain the relevant land parcels contemplated under the preliminary framework agreements in accordance with the understanding of the preliminary framework agreements or at all, our business and future prospects could be materially and adversely affected.

We face uncertainties when obtaining land sites through the acquisition of project companies

We have in the past, from time to time, obtained land sites for our projects through acquisition of project companies that held the land use rights, in addition to increasing our land bank through public tender, auction and listing-for-sale. We may continue to obtain land sites through such acquisitions in the future. We cannot assure you that we have discovered, or will be able to discover, all existing or potential liabilities of the target project companies. In addition, the government may change the permitted use of the land sites to which such project companies own the land use rights after our acquisitions, rendering the land sites unsuitable for our property development purposes. If any of the undiscovered existing or potential liabilities of the acquired project companies are found to be material, or if we are unable to develop properties on the land sites to which the acquired project companies have the land use rights, our business, financial conditions and results of operations may be materially and adversely affected. In addition, we may acquire such project companies for an amount that is less than their fair market value, resulting in gains recognized on our consolidated statements of comprehensive income. However, such gains do not give rise to any change to our cash position and therefore we may experience constraints on our liquidity even though our profitability increased.

Our results of operations may be materially and adversely affected if we fail to obtain, or there are material delays in obtaining, requisite governmental approvals for our property developments

The property industry in the PRC is heavily regulated by the PRC government. Property developers in China must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, at various stages of the property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities including a land use rights certificate, a construction land planning permit, a construction works planning permit, a construction works commencement permit and a pre-sale permit or confirmation of completion and acceptance. Each approval may depend on the satisfaction of certain conditions. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – D. Development of a Property Project.” We cannot assure you that we will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to regulatory approvals. There may also be delays on the part of the relevant regulatory bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the completion of our developments and sale of our properties could be substantially disrupted or delayed and any such disruption or delay would materially and adversely affect our business, results of operations and financial condition. Furthermore, the relevant regulatory bodies may not approve the development plans for our projects and we may need to amend such development plans to obtain the necessary permits. Amendment to our development plans may have a material and adverse effect on our business and results of operations.

We face intense competition with respect to our property development, property investments, property operation services, property agency services and hotel services businesses

The property industry in the PRC is highly competitive and we face competition as to our property development business from major domestic developers and, to a lesser extent, foreign developers primarily from other countries or regions in Asia, including several leading developers from Hong Kong. Competition among property developers may increase the costs for land acquisitions and raw materials and administrative costs for hiring or retaining qualified personnel, result in shortages of skilled contractors and oversupply of properties, decrease property prices in certain parts of the PRC, and slowdown the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, any of which may adversely affect our business and financial condition. In addition, the PRC government’s recent measures designed to reduce land supply further increased competition for land among property developers. Certain of our competitors are well capitalized and have greater financial, marketing and other resources than we have. Some also have larger land banks, greater economies of scale, better brand recognition, longer track record and more established relationships with contractors, suppliers and customers in certain markets. Such property developers may be able to respond to changes in market conditions more promptly and effectively than we can, or may be more competitive in acquiring land through auction or other processes. If we are unable to maintain a competitive position with respect to the acquisition of land, adapt to changing market conditions or otherwise compete successfully with our competitors, our prospects, business, financial condition and results of operations may be materially and adversely affected.

In addition, we face intense competition as to our property operation services business and hotel services business at the national, regional and local levels. Competition in such businesses is based on quality of services, brand name recognition, geographic coverage, commission rates and range of services. Unlike property development business, such businesses have a low entry barrier and do not

require significant capital commitments. This low entry barrier allows new competitors to enter into the market with relative ease. New and existing competitors may offer competitive rates, greater convenience or superior services, which could attract our customers away from us. Competition among companies providing such services may cause a decrease in commission rates and higher costs to attract or retain talented employees. Furthermore, our relative competitive position varies significantly by service type and geographic area. Certain of our competitors may be smaller than us but may be more established and have greater market presence and brand name recognition on a local or regional basis, while certain competitors are large national and international firms that may have more financial or other resources than us. If we fail to compete effectively, our property operation services business and hotel services business may suffer and our results of operations may be materially and adversely affected.

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

Most of our purchasers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unattractive or unavailable to potential property purchasers.

The CBRC issued a regulation on September 2, 2004 to limit mortgage loans on properties to no more than 80% of the sale price of the underlying properties. On March 17, 2005, the PBOC set forth the minimum interest rate for property mortgage loans to 0.9 times the corresponding benchmark lending rates, resulting in an increase in the minimum interest rate for mortgages. In May 2006, the PRC government increased the minimum amount of down payment to 30% of the purchase price for properties with a GFA of more than 90 square meters. In September 2007, the minimum down payment for any purchase of second or subsequent residential property was increased to 40% of the purchase price if the purchaser had obtained a bank loan to finance the purchase of his or her first property. Moreover, the interest rate for bank loans for such purchases shall not be less than 110% of the PBOC benchmark lending rate of the same term and category. For further purchases of properties, there would be upward adjustments on the minimum down payment and interest rate for any bank loan. In addition, 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 December 2007, the PBOC and CBRC issued another notice to clarify that, in determining the applicability of the relevant restrictions, the number of mortgage loans deemed to have been borrowed by a borrower shall include mortgage loans borrowed by any member of his or her family. In October 2008, in response to the global financial and economic crisis, the PBOC decreased the minimum amount of down payment for residential property purchases to 20% and reduced the minimum interest rate for mortgage loans for such purchases to 70% of the benchmark lending rate. However, despite such decrease in lending requirements, certain PRC banks have implemented their own internal restrictive conditions which limited the number of borrowers that can take advantage of the reduced requirements as announced by the PBOC. On April 17, 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 square meters. Further, pursuant to such notice, the interest rate for mortgage loans of second homes cannot be lower than 110% of the PBOC benchmark lending rate. On September 29, 2010, the PBOC and the CBRC issued a notice, under which, the minimum down payment for all first home purchases is increased to 30% of the purchase price. On January 26, 2011, the State Council issued a notice in which the minimum down payment is raised to 60% of the purchase price for second-house purchases with the minimum loan interest rate at 110% of the benchmark rate. In October 2011, a number of PRC domestic banks raised the mortgage rates for first-time home buyers by a minimum of

5%. In addition, due in large part to the PRC government's credit tightening policies, the bank approval process for a mortgage loan application in 2011 generally took longer than before. On February 26, 2013, the General Office of the State Council announced that for cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment ratios and interest rates for loans to purchase second properties. In the third quarter of 2013, there has been a further increase on the down payment ratio of second home purchase mortgages. On September 29, 2014, the PBOC and the CBRC issued a notice to provide 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 a notice that provides a household that owns a residential property and has not paid off its existing mortgage loan applies for a new mortgage loan to buy another residential property to improve its living conditions, the minimum down payment will be 40% of the property price, with the specific terms of such loan to be decided by the banking financial institution that provides the loan based on the risk profile of the borrower. On February 1, 2016, the PBOC and the CBRC issued a notice that provides the minimum down payment is 25% and the local policy can decrease 5% from that, and for a household that owns a residential property and has not paid off its existing mortgage loan, the minimum down payment will be 30%. See "Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – E. Transfer and Sale of Property – (iii) Mortgages of Property" and "Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – F. Property Credit." In the event that mortgage loans for property purchases becomes more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on such financing may not be able to purchase our properties, which in turn will materially and adversely affect our business, financial condition and results of operations.

In line with industry practice, we provide guarantees to banks for mortgage loans they offer to purchasers of our properties. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales. Such difficulties in financing could result in a substantially lower rate of pre-sales of our properties, which could adversely affect our business, financial condition and results of operations. We are not aware of any impending changes in laws, regulations, policies or practices which will prohibit such practice in the PRC. However, we cannot assure you that such changes in laws, regulations, policies or practices will not occur in the future.

Changes in laws and regulations in relation to the pre-sale of properties may adversely affect our business, financial condition and results of operations

Proceeds from the pre-sales of our properties are an important source of funds for the respective property developments and have an impact on our cash flow and liquidity position. On August 5, 2005, the PBOC proposed in a report entitled "2004 Real Estate Financing Report (2004中國房地產金融報

告)” that the practice of pre-selling uncompleted properties be discontinued, on the grounds that such practice creates significant market risks and generates transactional irregularities. While such proposal has not been adopted by any PRC government authorities and has no mandatory effect, we cannot assure you that the PRC government will not ban or impose material limitations on presales of uncompleted properties in the future. Future implementation of any restrictions on our ability to pre-sell our properties, including any requirements to increase the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time required for recovery of our capital outlay and would force us to seek alternative means to finance the various stages of our property development. This, in turn, could have a material and adverse effect on our business, financial condition and results of operations.

We are exposed to pre-sale related contractual and legal risks

We make certain undertakings in our pre-sale contracts. Our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we pre-sell units in a property development and we fail to complete that development, we will be liable to the purchasers for their losses. If we fail to complete a pre-sold property on time, we may be liable to the relevant purchasers for such late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If our delay extends beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A purchaser may also claim damages against us if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience delays in the completion and delivery of our properties, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant pre-sale contract.

We cannot assure you that services performed by independent contractors will always meet our quality standards and timing requirement or will be available within our budget

We engage independent contractors to provide various services, including but not limited to construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. We generally select independent contractors through an open tender process. We cannot assure you that we will be able to obtain services from independent contractors within our budget or at all, or the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet our quality and safety standards and our timing requirement. If the performance of any independent contractor is not satisfactory or is delayed, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, the completion of our property developments may be delayed, and we may incur additional costs due to a contractor’s financial or other difficulties. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

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

As the result of economic growth and the boom in the property industry in the PRC, wages for construction workers and the prices of construction materials and building equipment have experienced substantial increases in recent years. In addition, the PRC Labor Contract Law (中華人民共和國勞動合同法) promulgated on December 28, 2012 and took effect on July 1, 2013, enhanced the protection for employees and increased employers’ liability which may further increase our labor costs. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract.

However, we are exposed to the price volatility of labor and construction materials to the extent that we periodically enter into new or renew existing construction contracts at different terms during the life of a project, which may span over several years, or if we choose to hire the construction workers directly or purchase the construction materials directly from suppliers. We are also exposed to the price volatility of building equipment used in properties developed by us because we usually procure such equipment ourselves. Furthermore, we typically pre-sell our properties prior to their completion and we will be unable to pass the increased costs on to purchasers of our properties if the construction costs increase subsequent to the time of such pre-sale. If we are unable to pass on any increase in the cost of labor, construction materials and building equipment to either our construction contractors or to the purchasers of our properties, our results of operations may be adversely affected.

We may be subject to legal and business risks if we fail to obtain, renew or keep necessary qualification certificates for our property development, property operation services, hotel services, property investment and property agency services businesses

Property developers in the PRC must obtain a qualification certificate in order to engage in property development businesses in the PRC. Property developers in the PRC must also produce a valid qualification certificate when they apply for a pre-sale permit. According to the Provisions on Administration of Qualifications of Property Developers (房地產開發企業資質管理規定), newly established property developers must first apply for a provisional qualification certificate, which is valid for one year and can be renewed for a maximum of two additional years. A property developer is required to obtain a formal qualification certificate before its provisional qualification certificate expires. All formal qualification certificates are subject to verification on an annual basis. If the newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. It is mandatory under government regulations that developers fulfill all statutory requirements before obtaining or renewing their qualification certificates. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – C. Qualifications of a Property Development Enterprise.

As of December 31, 2019, we had 31 project companies that were, or expected to be, engaged in the property development business, of which 19 had obtained formal qualification certificates and 12 had obtained provisional qualification certificates. If any of our project companies that are, or expect to be, engaged in property development business is unable to meet the relevant requirements and therefore unable to obtain or renew its provisional qualification certificate, obtain its formal qualification certificate when its provisional qualification certificate expires, or pass the annual verification of its formal qualification certificate, such project company will be given a deadline within which it has to meet these requirements and it will also be subject to a penalty of between RMB50,000 and RMB100,000. Failure to meet the requirements within the deadline could result in the revocation of the qualification certificate and the business license of the relevant project company. We cannot assure you that we will be able to pass the annual verification of the qualification certificates of each of our project companies or that we will be able to renew our provisional qualification certificates or obtain formal qualification certificates in a timely manner, or at all, as and when the provisional qualification certificates expire. As of December 31, 2019, the qualification certificates for some of our property development companies had expired and were in the process of renewal.

Our PRC subsidiaries engaged in the property operation services (including property management services, building equipment installation, maintenance and repair services and information network services), hotel services and property investment businesses are required to obtain relevant qualification certificates from competent PRC government agencies for the provision of their services and some such qualification certificates are subject to annual verifications.

As of December 31, 2019, all of our major PRC subsidiaries engaged in the property operation services, hotel services and property investment businesses had obtained or were in the process of obtaining the required qualification certificates. We cannot assure you that our PRC subsidiaries engaged in the property operation services, hotel services and property investment businesses will be able to pass the annual verification of their qualification certificates or that we will be able obtain new qualification certificates for our subsidiaries that may engage in the property operation services, hotel services and property investment businesses in the future.

We are also subject to numerous national, regional and local laws and regulations specific to the property agency services. If we fail to properly file records or to obtain or maintain the licenses and permits for conducting property agency services, we may be ordered to cease conducting the relevant real estate services and be subject to warning, fines and revocation of its licenses. As the size and scope of real estate transactions have increased significantly during the past several years, both the difficulty of ensuring compliance with the multiple levels of licensing regimes and the possible loss resulting from non-compliance have increased.

The governmental authorities in the PRC have broad powers to suspend or revoke licenses and permits or not to grant or renew licenses or permits. If our PRC subsidiaries engaged in the property operation services, hotel services and property investment and property agency services businesses are unable to obtain, renew or keep their qualification certificates, they may not be permitted to continue their business, which could materially and adversely affect our business, financial condition, results of operations and reputation.

We may not be able to complete our property development projects on time or within our budget or at all

Property development projects require substantial capital expenditures prior to and during the construction period and the construction of a property project may take longer than a year before it generates positive cash flows through pre-sales, sales or leases. The progress and costs for a property development project can be adversely affected by many factors, including, without limitation:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and/or demolition of existing structures;
- unforeseen engineering, design, environmental or geographic problems;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes;
- adverse weather conditions;
- discovery of artifacts in the construction site; and
- changes in government policies.

Construction delays or failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may affect our financial condition and results of operations and may also cause damage to our reputation. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to damages for late delivery. We cannot assure you that we will not experience any significant delays in completion or delivery or that we will not be subject to any liabilities for any such delays. If the delay extends beyond the contractually specified period, the purchaser would be entitled to terminate the purchase contract and claim damages. Therefore, any delay in completion of our property developments could have a material adverse impact on our business, financial condition and results of operations.

We may not be successful in expanding our business into new geographical regions or cities

Our revenues are primarily derived from our operations in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, Central China and the Beijing-Tianjin metropolitan region. We may expand into additional cities in these regions or expand into new regions and countries in the future. Such new countries, regions or cities may differ from our existing markets in terms of the level of economic development, demography, topography, property trends and regulatory practices. Therefore, we may not be able to replicate our successful business model in our existing markets to these other regions or cities. In addition, as we enter into new markets, we may not have the same level of familiarity with contractors, business practices and customs and customer tastes, behavior and preferences. Therefore, we may not be able to successfully leverage our existing experience to expand our property development, property operation services business, property agency services business and hotel services business into these other markets. We may also face intense competition from other developers, other companies that provide property operation services and other property agency companies with more established experience or presence in those markets.

We may expand our business into new segments of the property industry which may not be successful

We may expand our business into new segments of the property industry in the PRC as well as continue to expand the property services businesses that we currently operate including, among others, financial leasing, community P2P financial business, retirement life services, community O2O ecosystem, smart home security services system and educational consultancy businesses. While we have accumulated experience in property development and in providing property operation services and property agency services, we cannot assure you that we will be able to leverage such experience and replicate our historical success when entering into new businesses. The expansion of our existing property services businesses and the expansion into new businesses may require a significant amount of capital investment and involve various risks and uncertainties, including the risk of operating in a new environment, the difficulties of integrating new businesses into our existing businesses and the diversion of resources and attention of our management. Any failure to address these risks and uncertainties may adversely affect our business, financial condition and results of operations.

We may not be able to successfully manage our growth

We have been rapidly expanding our operations in recent years. For example, we invested in Wanda Property Management Co., Ltd. (萬達物業管理有限公司) (“Wanda Property Management”), which primarily provides property management services to the properties developed by Wanda Commercial Properties Co., Ltd. (大連萬達商業地產股份有限公司). We expect to provide property management consulting services to the residential and commercial properties under the management of Wanda Property Management. We expect that Colour Life and Shenzhen Home E&E Commercial Services Group Co., Ltd. (深圳市美易家商務服務集團股份有限公司), our subsidiary engaged in the provision of property management, asset operation and management for commercial properties, will benefit from the greater cooperation opportunity with Wanda Property Management. As we continue to

grow, we must continue to improve our managerial, technical and operational knowledge and allocation of resources, and to implement an effective management information system. To effectively manage our expanded operations, we need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development requirements. In order to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. We will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual obligations and reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business. Neither can we assure you that our expansion plans will not adversely affect our existing operations and thereby have a material adverse effect on our business, financial condition, results of operations and future prospects.

The illiquid nature and the lack of alternative uses of investment properties could limit our ability to respond to adverse changes in the performance of our properties

Investment properties are relatively illiquid compared to other types of investments such as publicly traded equity securities. As of December 31, 2017, 2018 and 2019 we had investment properties amounting to RMB10,194.2 million, RMB10,516.0 million and RMB11,924.4 million (US\$1,712.8 million), respectively. As a result, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by many factors that are beyond our control, including general economic conditions, the availability of mortgage financing and interest rates, and we cannot accurately determine the market price of our investment properties nor are we able to predict whether we will be able to sell any of our investment properties at the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. In addition, investment properties may not be readily convertible for alternative uses without substantial capital expenditure if the original function of such investment property became unprofitable due to competition, age, decreased demand or other factors. Similarly, for certain investment properties to be sold, substantial capital expenditure may be required to correct defects or make improvements to the property due to factors such as change in building regulations or as a result of age, compounding the effort and time required. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties could materially and adversely affect our business, financial condition and results of operations.

Property owners may terminate our engagement as the provider of property management services

We provide property management services through the Colour Life Group and Fantasia Property Management (International) Company Limited to our own developed projects and the projects of other developers. Our subsidiaries within the Colour Life Group and Fantasia Property Management (International) Company Limited are unrestricted subsidiaries under the indentures governing our existing senior notes and the Notes. See “Business – Our Property Operation Business” for details regarding the restructuring and spin-off initial public offering of the Colour Life Group. We believe that property management is an integral part of our business and critical to the successful marketing and promotion of our property developments as well as an important source of revenue. As of December 31, 2019, Colour Life managed a total GFA of over 550.1 million sq.m. In 2019, the revenue of the Colour Life Group accounted for approximately 20.2% of our total revenue. The Colour Life Group has become increasingly important for us to withstand economic cycle risks and achieve stable profits. Under the PRC laws and regulations, owners of the same residential community of certain scale have the right to

change the property management service provider upon the consent from a certain percentage of the owners of such community. If owners of the properties that we manage choose to terminate our property management services, or property buyers dislike our property management services, our reputation and results of operations could be materially and adversely affected.

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

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

If the value of our brand or image diminishes, our business and results of operations may be materially and adversely affected

Our brands and images play an integral role in all of our business operations. Our continued success in maintaining and enhancing our brands and images depends to a large extent on our ability to satisfy customer needs by further maintaining and improving our product quality or quality of services across our operations, as well as our ability to respond to competitive pressures. If we are unable to satisfy customer needs or if our public image or reputation were otherwise diminished, our business transactions with our customers may decline which could in turn adversely affect our results of operations.

In addition, as we provide property operation services and property agency services to third party developers, our brand and images may be adversely affected as a result of significant quality defects in the properties developed by third party developers or negative publicity or other problems related to third party developers. The ability of our subsidiary to successfully sell or manage the properties of such third party developers may be materially and adversely affected, which may in turn adversely affect our long-term ability to attract purchasers for the properties we are contracted to sell, including those properties developed by us, or to attract management opportunities in respect of the properties developed by third party developers.

We guarantee mortgage loans provided to our purchasers and may be liable to the mortgagee banks if our purchasers default on their mortgage loans

We arrange for various domestic banks to provide mortgage loans to the purchasers of our properties. According to market practice, domestic banks require us to guarantee these mortgage loans until the relevant property ownership certificates are issued, which generally takes place within one to two years after we deliver possession of the relevant property to the purchasers, or until the loans are fully repaid, at which time such guarantees are released. In line with industry practice, we do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks. As of December 31, 2017, 2018 and 2019, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB7,296.7 million, RMB9,789.7 million and RMB12,166.6 million (US\$1,747.6 million), respectively, which were approximately 10.6%, 10.4% and 12.7% respectively, of our total assets. The default rates on the mortgage loans provided to the purchasers of our properties against the total guarantees we provided in connection with such mortgage loans were negligible during the three-year ended December 31, 2017, 2018 and 2019. If a purchaser

defaults under the mortgage loan and the mortgagee bank calls on our relevant guarantee after it deals with the relevant property through a default auction, we are required to repay the outstanding amount owed by the purchaser to the mortgagee bank under the mortgage loan, the mortgagee bank will assign its rights under the loan and the mortgage to us and we have full recourse to the property. Our business, results of operations and financial condition could be materially and adversely affected to the extent that there is a material depreciation in the value of the mortgaged properties or if we are unable to re-sell such properties due to unfavorable market conditions or other reasons.

Failure or delay in collecting trade receivables could materially and adversely affect our financial condition, results of operations and cash flow

As of December 31, 2017, 2018 and 2019, our trade receivables were RMB2,082.0 million, RMB1,957.1 million and RMB2,503.6 million (US\$359.6 million), respectively. Trade receivables primarily represented receivables from sales of properties. In addition, as of December 31, 2017, 2018 and 2019, RMB607.8 million, RMB733.6 million and RMB888.2 million (US\$127.6 million) of our trade receivables were overdue but not impaired. We cannot assure you that we will be able to collect all trade receivables from all of our customers in full or in a timely manner, and our failure to do so may materially and adversely affect our financial conditions, results of operations and cash flows. In addition, we may incur expenses relating to the collection of our trade receivables, such as through legal proceedings.

Our results of operations may fluctuate from period to period

Our results of operations tend to fluctuate from period to period. The number of properties that we can develop or complete during any particular period may be limited due to the substantial capital required for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. In addition, several properties that we have developed or that are under development are large scale and are developed in multiple phases over the course of one to several years. The selling prices of the residential units in larger scale property developments tend to change over time, which may impact our sales proceeds and, accordingly, our revenues for any given period. Our revenue increased by 36.4% from RMB13,986.1 million in 2018 to RMB19,081.6 million in 2019. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Comparison of the Year Ended December 31, 2019 to the Year Ended December 31, 2018.”

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

We carry out some of our business through joint ventures or in collaboration with other third parties. Such joint venture arrangements or collaboration involve a number of risks, including:

- disputes with our partners in connection with the performance of their obligations under the relevant project, joint venture or cooperative property development agreements;
- disputes as to the scope of each party’s responsibilities under these arrangements;
- financial difficulties encountered by our partners affecting their ability to perform their obligations under the relevant project, joint venture or cooperative property development agreements with us; or
- conflicts between the policies or objectives adopted by our partners and those adopted by us.

Any of these and other factors may materially and adversely affect our business.

We may be required to forfeit land to the PRC government for failure to comply with the terms of the land grant contracts

Under the PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract, including those relating to payment of fees, designated use of land and schedule for commencing and completing the developments, the relevant government authorities may issue a warning to or impose a penalty on the developer or require the developer to forfeit the land. Specifically, under current PRC laws and regulations, if property developers fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice to the property developers and impose an idle land fee on the land of up to 20% of the land premium. If a property developer fails to commence development for more than two years from the commencement date stipulated in the land grant contract, the land may be subject to forfeiture to the PRC government. Moreover, even if the property developer commences the land development in accordance with the land grant contract, the relevant land will nonetheless be treated as idle land if (i) the developed GFA on the land is less than one-third of the total GFA of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract and (ii) the land development has been suspended for over one year without governmental approval. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – D. Development of a Property Project.”

Our subsidiary, ASIMCO Tianwei Fuel System (Tianjin) Company Limited (“ASIMCO Tianjin”), was subject to a pre-existing notice to pay a penalty for its delay in work commencement of its land in Wuqing District in Tianjin which has been paid off as of the date hereof. ASIMCO Tianjin obtained the construction works commencement permit from the competent governmental agency and commenced construction on December 29, 2016 for the land in question. Except as otherwise disclosed in this offering memorandum, during the years ended December 31, 2017, 2018 and 2019, we were not subject to any penalty for late payment of land premiums and were not required to forfeit any land nor have we received any warning from the relevant governmental authorities or paid any penalties as a result of failing to commence development within two years of the relevant land grant contract. While we have complied with all development plans and payment obligations, there have been circumstances where the development of a portion of land for which our Group was granted land use rights was delayed beyond the date stipulated in the relevant land grant contract. As confirmed by relevant government authorities, in each case such delays were caused by force majeure, acts of government or preliminary work that was required to be undertaken prior to the commencement of development. According to relevant PRC laws and regulations, any delay in the commencement of development that can be attributed to any of the above factors will not result in the forfeiture of idle land and land grant deposits, or the imposition of any other penalty. We cannot assure you that circumstances leading to forfeiture of land or delays in the completion of a property development may not arise in the future. If we are required to forfeit land, we will not be able to continue our property development on the forfeited land, recover the costs incurred for the initial acquisition of the forfeited land or recover development costs and other costs incurred up to the date of forfeiture.

We are required to deliver individual property ownership certificates in a timely manner and the failure to do so may result in claims against us

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within one to two years after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, property developers are required to submit requisite governmental approvals in connection with their property developments, including a land use rights certificate, a certificate evidencing the

construction has met the requirements of relevant planning permits, a certificate evidencing the construction has completed, a property survey report and other documents required, to the local bureau of land resources and housing administration after the receipt of the completion and acceptance certificate for the relevant properties and to apply for the general property ownership certificate in respect of these properties. Property developers are then required to submit, within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof for payment of deed tax, and the general property ownership certificate and other documents required, to the bureau for review prior to the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. Property developers, including us, may become liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes or for any other reason beyond our control. We cannot assure you that we will be able to timely deliver all property ownership certificates in the future or that we will not be subject to any liabilities as a result of any late deliveries of property ownership certificates.

The relevant PRC tax authorities may challenge the basis on which we have been paying our LAT obligations and our results of operations and cash flows may be materially and adversely affected

All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to the land appreciation tax (“LAT”) at progressive rates ranging from 30% to 60% of the “appreciated value of the property,” as such term is defined in the relevant tax laws. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – J. Major Taxes Applicable to Property Development Enterprises – (iii) Land Appreciation Tax.” There is an exemption for the sale of ordinary residential properties if the appreciated value does not exceed 20% of the total deductible expense items allowed under the relevant LAT regulations. This exemption is not available for sales of luxury residential properties, villas and commercial properties. It is not clear whether the residential portion of our mixed residential and commercial developments will be eligible for the exemption available to ordinary residential properties. In 2017, 2018 and 2019, we recorded an LAT expense in the amount of RMB557.6 million, RMB803.1 million and RMB923.3 million (US\$132.6 million), respectively.

On December 28, 2006, the State Administration of Taxation (the “SAT”) issued the LAT Notice, which became effective on February 1, 2007 and amended on June 15, 2018. The LAT Notice sets forth, among other things, methods of calculating LAT and a time frame for settlement of LAT. On May 12, 2009, the SAT issued the Provisions on Administration of the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), which became effective on June 1, 2009 and stipulates in detail the procedures for settlement of LAT and methods of calculating LAT. Furthermore, in May 2010, the SAT issued two notices emphasizing issues concerning (i) income verification in connection with the settlement of LAT; (ii) the calculation of applicable exemptions under certain circumstances; and (iii) the minimum LAT prepayment rates applicable to different types of properties in different localities. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – J. Major Taxes Applicable to Property Development Enterprises – (iii) Land Appreciation Tax.” We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, provisioning for LAT requires our management to use a significant amount of judgment with respect to, among other things, the anticipated total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and the various deductible items. As a result, the relevant PRC local tax authorities may not agree with our estimates or the basis on which we calculate our LAT liabilities. If the LAT provisions

we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flows will be materially and adversely affected.

We are subject to multiple regulations of the PRC governmental authorities and any non-compliance or perceived non-compliance with these regulations may have a material and adverse effect on our business, financial condition and results of operations

Our business is regulated by various PRC governmental authorities and departments. If any PRC authority believes that we or any of our suppliers or contractors in the course of our operations are not in compliance with PRC regulations, it could delay or even shut down our construction or sales operations, refuse to grant or renew any necessary approvals or licenses, institute legal proceedings to seize our properties, enjoin future actions or impose civil and/or criminal penalties, pecuniary or otherwise, against us, our officers or our employees. Any such action by the PRC governmental authorities would have a material adverse effect on our business, causing delays to our development projects, or terminating them altogether. In recent years, the PRC Government has implemented many new laws and regulations or made amendments to existing regulations concerning property developers. We cannot guarantee that our business and development projects are fully compliant with the laws and regulations. If we are found to have breached, or are accused of having not complied with, or in the future do not comply with, any applicable PRC laws and regulations, we may be subject to the imposition of penalties or even suspension of business and confiscation of any acquired land. In such event, our business and reputation may be materially and adversely affected.

Our success depends on the continuing services of our senior management team and other key personnel

Our future success depends heavily upon the continuing services of our executive directors and members of our senior management team, in particular, our chairman, executive director and chief executive officer, Mr. Pan Jun and our executive director, Ms. Zeng Jie, Baby. If one or more of our senior executives or other personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, as competition in the PRC for senior management and key personnel with experience in property development is intense, and the pool of qualified candidates is very limited, we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. If we fail to attract and retain qualified personnel, our business and prospects may be adversely affected. If any of our senior management or key personnel fails to comply with any applicable laws and regulations, including PRC and other applicable anti-corruption laws and regulations, or is subject to any investigation related to such failure or alleged failure by any regulatory body, our reputation, business, financial conditions and results of operations could be materially and adversely affected.

We face competition for qualified employees in the property industry which may make it difficult for us to retain and recruit enough employees for the expansion of our business

Our long-term success depends on our ability to attract and retain qualified employees. We require a large number of qualified employees for each stage of our property development process and for our property operation services, property agency services and hotel services businesses. We expect to recruit more qualified employees as we continue to strengthen our existing business or expand our business into new geographical regions and into other segments of the real estate industry. The growth of the property industry in China has created an increasing demand for qualified employees in each segment of the property industry. While we have implemented certain measures aimed to promote effective recruitment

and retention of our employees, we cannot assure you that these measures will be effective. If we are unable to recruit or retain a sufficient number of qualified employees for the continuation and expansion of our business, our business and prospects may be adversely affected.

We may suffer losses arising from uninsured risks

In line with industry practice, we do not maintain insurance for destruction of or damage to our property developments (whether they are under development or have been completed and are pending delivery) other than with respect to those properties over which our lending banks have security interests, for which we are required to maintain insurance coverage under the relevant loan agreements. Similarly, we do not carry insurance covering construction-related personal injuries. In addition, we do not carry insurance for any liability arising from allegedly tortious acts committed on work sites. We cannot assure you that we would not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our operations and property development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities may have a material adverse effect on our business, financial condition and results of operations.

The total GFA of some of our property developments exceeds the original authorized area and the excess GFA is subject to governmental approval and payment of additional land premium

When the PRC government grants the land use rights for a piece of land, it will specify in the land grant contract the designated use of the land and the total GFA that the developer may develop on this land. The actual GFA constructed, however, might have exceeded the total GFA authorized in the land grant contract due to various factors such as subsequent planning and design adjustments. The amount of GFA in excess of the authorized amount is subject to approval when the relevant authorities inspect the properties after their completion and the developer may be required to pay additional land premium in respect of such excess GFA. If we fail to obtain the completion certificate due to such excess GFA, we will not be allowed to deliver the relevant properties to the purchasers or recognize the revenue from the relevant pre-sold properties and may also be subject to liabilities under the pre-sale contracts. We cannot assure you that the total constructed GFA of our existing projects under development or any future property developments will not exceed the relevant authorized GFA upon completion or that we will be able to pay the additional land premium and obtain the completion certificate on a timely basis.

The ancillary facilities in residential projects developed by us may not always be available to residents in the projects

Many of the residential projects developed by us have ancillary facilities such as schools that enhance the value of properties in such projects by providing convenience and a better living environment to residents. We do not, however, own or operate any of these ancillary facilities except for clubhouses and therefore cannot guarantee that these ancillary facilities will continue to operate and provide services to residents in the properties developed by us. In the event that any of these ancillary facilities cease to operate and we cannot arrange for replacement services, properties in the affected project will become less attractive to potential purchasers, which will adversely affect our business to the extent that we have properties unsold or held for investment purposes in such project. In addition, our reputation may also be adversely affected as a result of the unavailability of such ancillary facilities.

Our controlling shareholders may take actions that are not in, or may conflict with, our or our creditors', including the holders of the Notes, best interests

As of the date of this offering memorandum, our controlling shareholder, Fantasy Pearl International Limited (“Fantasy Pearl”) holds 57.51% of our outstanding shares. Fantasy Pearl, and our ultimate controlling shareholders, Ms. Zeng Jie, Baby and Ice Apex Limited (“Ice Apex”), have and will continue to have the ability to exercise a controlling influence over our business, and may cause us to take actions that are not in, or may conflict with, our or our creditors', including the holders of the Notes, best interests, including matters relating to our management and policies and the election of our directors and senior management. Ms. Zeng Jie, Baby and Ice Apex will be able to influence our major policy decisions, including our overall strategic and investment decisions, by controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of any dividend payments, approving our annual budgets, deciding on increases or decreases in our share capital, determining our issuance of new securities, approving mergers, acquisitions and disposals of our assets or businesses, and amending our articles of association. For more information, see “Management,” “Principal Shareholders,” and “Related Party Transactions.”

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

We may be involved in disputes with various parties involved in the development and sale of our properties, including business partners, contractors, suppliers, construction workers and purchasers. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development schedule, and the diversion of resources and management's attention, regardless of the outcome. As most of our projects are developed in multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the relevant project is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. These disputes and legal and other proceedings may materially and adversely affect our reputation, business, results of operations and financial condition. The judicial process involved may decrease the time we devote to normal and customary operating functions. If we fail to resolve these disputes in our favor, we may incur substantial losses and face significant liabilities. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties and/or delay our property developments. Furthermore, if our PRC subsidiaries are not in full compliance with PRC laws and regulations, including those in relation to registered share capital, business licenses, operation permits and their articles of association, their operations may be adversely affected if they are subject to fines or sanctions imposed by PRC authorities as a result. In such cases, our results of operations and cash flow could be materially and adversely affected.

In addition, any failure by us or any of our directors, officers or agents to fully comply with PRC or other applicable anti-corruption laws, or any investigation in relation to such failure or alleged failure by any regulatory body, could also materially and adversely affect our reputation, business, results of operations and financial condition.

We are subject to potential environmental liability that could result in substantial costs

Property developers in the PRC are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the location, the environmental condition and the present and former uses of the site, as well as adjacent properties. The relevant property development project may be delayed due to our efforts to comply with environmental laws and regulations may result in delays in development. In some environmentally sensitive regions or areas, the

compliance costs could be prohibitively expensive. In addition, each property development project is required by the relevant PRC laws and regulations to undergo environmental assessments and to submit an environmental impact assessment report to the relevant government authorities for approval before commencement of construction. Failure to obtain such approval prior to construction may result in suspension of construction and a penalty amounting to RMB50,000 to RMB200,000 for each project.

The environmental investigations conducted relating to each of our property development projects to date have not revealed any material environmental liability. However, it is possible that these investigations did not reveal all environmental liabilities and there may be environmental liabilities of which we are unaware that may have a material adverse effect on our business, financial condition or results of operations. For additional information, see “Our Business – Environmental Matters.”

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

Under HKFRS, we are required to reassess the fair value of our completed investment properties at the date of every statement of financial position. Our valuations are generally based on a direct comparison approach, under which our investment properties are directly compared with other comparable properties of similar size, character and location, in order to provide a fair comparison of capital values, and an income approach by taking into account the net rental income of properties. Gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statements of comprehensive income in the period in which they arise. Our investment properties were revalued as of December 31, 2017, 2018 and 2019, respectively, on an open market and existing use basis which reflected market conditions on those dates. The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. For example, with respect to properties under development and planned for future development, the valuations are based on assumptions that (1) the properties will be developed and completed in accordance with the development proposals, (2) regulatory and governmental approvals for the proposals have been obtained, (3) all premiums in connection with the properties have been paid and the properties are free of encumbrances and other restrictions and (4) we are in possession of the proper legal titles and are entitled to transfer the properties at no extra land premium. For properties owned by the project companies in which we have an attributable interest of less than 100%, the valuation assumes that the interest of the relevant project companies in the aggregate value of the property or business is equal to our proportionate ownership interest in the relevant company or business. Accordingly, the valuations are not a prediction of the actual value we expect to realize from these properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values.

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

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they develop or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from our third-party contractors with respect to our development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on our business, financial condition and results of operations.

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

The Enterprise Income Tax Law (“EIT Law”) and the implementation regulations to the EIT Law issued by the PRC State Council became effective on January 1, 2008. Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their global income. It is, however, currently unclear under what situations an enterprise’s “de facto management body” would be considered to be located in China. The SAT promulgated the Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in Accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) in April 2009 which defines the term “management body” in respect of enterprises that are established offshore by PRC enterprises. However, no definition of “management body” is provided for enterprises established offshore by private individuals or foreign enterprises like us. As such, Commerce & Finance Law Offices, our PRC legal counsel, has advised us that there is uncertainty whether we will be deemed to be a PRC “resident enterprise” for the purposes of the EIT Law. As of the date of this offering memorandum, the relevant PRC tax authorities have not notified us that, nor have we sought clarification as to whether, we or any of our non-PRC subsidiaries are considered a PRC resident enterprise for the purpose of the EIT Law. Substantially all of our management is currently based in China, and therefore, we may be treated as a PRC “resident enterprise” for enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the EIT Law or the implementation regulations.

The PRC government’s pilot plan to replace business tax with value-added tax (“VAT”) may subject us to more taxes, which could adversely affect our business and future results of operations

Pursuant to the PRC Provisional Regulations on Business Tax, taxpayers providing taxable services falling under the category of service industry in China are required to pay a business tax at a normal tax rate of 5% of their revenues. In November 2011, the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax. Pursuant to this pilot plan and relevant subsequent notices, from January 1, 2012, VAT gradually replaced business tax in the transport and post industry, telecom industry and some of the modern service industries in China. Under the pilot plan, a VAT rate of 6% applies to certain modern service industries. On March 23, 2016, the Ministry of Finance and SAT promulgated the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-Added Tax to Replace Business Tax (“Circular 36”). Pursuant to Circular 36, starting from May 1, 2016, the VAT pilot program will cover the construction industry, the real estate industry, the finance industry and the life service industry on a nationwide basis. Although the VAT pilot program is mainly intended to reduce double taxation under the business tax system, we may be subject to more taxes under the VAT pilot program in connection with our operations and activities in China, which could adversely affect our business and future results of operations.

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

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur, including the Notes. The ability of our direct and indirect subsidiaries to pay dividends to their shareholders (including us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any) is subject to applicable laws and restrictions contained in the debt instruments and obligations of such subsidiaries. Furthermore, under

applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50% of their respective registered capital. As a result, all of our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. Our restricted reserves are not distributable as cash dividends. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, pay dividends or otherwise fund and conduct our business.

Risks Relating to Our Industry

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

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

On July 11, 2006, the MOC, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly issued the 171 Opinion which aims to regulate access by foreign investors to the domestic property market and to strengthen supervision over property purchases by foreign-invested enterprises. The 171 Opinion provides for, among other things, stricter standards for a foreign institution or an individual when purchasing real property in the PRC that is not intended for personal use. On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Strengthening and Regulating the Approval and Supervision of Real Estate Industry with Direct Foreign Investment (關於進一步加強、規範外商直接投資房地產業審批和監管的通知)(the "Notice 50") and revised on October 28, 2015, which imposed

additional restrictions and requirements on foreign investment in the real estate industry. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – B. Foreign-invested Property Enterprises.”

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

On March 1, 2013, the State Council issued the Notice on Continuing Adjustment and Control of Property Markets 《關於繼續做好房地產市場調控工作的通知》 which, among other restrictive measures, provides that further restraining measures are to be adopted to strengthen the regulation of the real estate market. Major cities which have implemented the commodity housing purchase restrictions are required to enforce purchase restrictions in all administrative areas of cities and restricted housing are to include new commodity housing and second-hand housing. Non-local residents who have one or more residential property and fail to provide one-year or longer tax payment certificates or social insurance payment certificates will be barred from purchasing any residential properties located in the administrative areas subject to restrictions. For cities where housing prices are increasing at an excessively high rate, local branches of the PBOC may further raise the down-payment rate and mortgage interest rate for the purchase of a second residential property. In addition, the Notice stipulates that the state will strictly enforce a 20% tax on profits from sales of homes. Financial institutions, subject to credit requirements being satisfied, will prioritize requests for mortgages for ordinary commodity housing construction projects in which medium and small housing units constitute 70% or more of the total units in such construction project. In 2013, several municipal governments, such as Shanghai, Guangzhou and Nanjing, adopted policies to raise minimum down payment for the second residential property owned by an individual to 70% of the purchase price and require longer period of payment of local tax or social insurance before a non-resident individual can buy any residential property.

In 2016, municipal governments including Shenzhen, Wuxi and Suzhou adopted additional tightening measures. These measures include stricter examination and verification of the source of fund of a loan applicant’s down payment, restricting the maximum monthly repayment to 50% of an applicant’s income, regulating the use of housing provident fund commission loans for first and second home purchases based on home size and the minimum down payment, and tightening of supervision over and restricting home purchases by non-local residents.

Although the various control measures are intended to promote more balanced property development in the long term, we cannot assure you that these measures will not adversely affect the development and sales of our properties. In addition, although the PRC government has, due to the recent global financial and economic crisis, introduced an offsetting stimulus package, which included the reduction of deed taxes for first-time purchasers of ordinary residential property of less than 90 square meters, the waiver of stamp duty fees for individuals who are purchasing or selling ordinary residential properties, and the exemption of land appreciation tax for individuals who are selling ordinary residential properties, among other benefits, there is no assurance that such policy would remain and that the various control measures would not be re-implemented once the economy stabilizes, which may adversely affect our business, results of operations and financial condition.

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

The property development industry and the ownership of private property in the PRC are still in a relatively early stage of development. Although demand for private property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, all of which are beyond our control, may affect market development. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of a liquid secondary market for private property may discourage the acquisition of new properties as resale is not only difficult, but can also be a long and costly process. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights may inhibit demand for property developments, property operation services and property agency services.

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

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

Risks Relating to the PRC

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

Substantially all of our business and operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to economic, political and social developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a

significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over capital investments, changes in tax regulations that are applicable to us, change in interest rates and statutory reserve rates for banks or government control in bank lending activities. Further, in May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. The full impact of the Moody's downgrade remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications. China's economic growth may slow due to weakened exports as well as recent developments surrounding the trade-war with the United States. See “– Risks relating to our Business – We may be adversely affected by fluctuations in the global economy and financial markets.” Should the trade war between the United States and the PRC begin to materially impact the PRC economy, the purchasing power of our customers in the PRC would be negatively affected, which would have a material and adverse impact on our business, financial condition and results of operation. 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.

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

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

protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

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

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

Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

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

The Notes are denominated in U.S. dollars, while substantially all of our revenue is generated by our PRC operating subsidiaries and is denominated in Renminbi. The exchange rates between the Renminbi and foreign currencies are affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 33.0% from July 21, 2005 to December 31, 2014. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. In addition, there remains significant international pressure on the PRC government to adopt a more flexible currency policy.

The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented, it is possible that they may result in a devaluation of the Renminbi against the U.S. dollar, the Singapore dollar or other foreign currencies, in which case our financial condition and results of operations could be adversely affected because of our substantial foreign-currency-denominated indebtedness and other obligations. Such devaluation could also adversely affect the value, translated or converted to U.S. dollars, Singapore dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. Following the offering of the Notes, we may enter into additional foreign exchange or interest rate hedging agreements with respect to our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the indenture governing the Notes. If we were unable to provide such collateral, it could constitute a default under such agreements.

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

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

In addition, on August 29, 2008, SAFE issued the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises*, or the Circular 142, a notice with respect to the administration of Renminbi converted from foreign exchange capital contributions of a foreign invested enterprise. As a result, unless otherwise permitted by PRC laws or regulations, such converted amount can only be applied to activities within the approved business scope of the relevant foreign invested enterprise and cannot be used for domestic equity investment or acquisition.

On March 30, 2015, SAFE issued the *Circular on Reforming the Administration Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises*, or Circular 19, which became effective on June 1, 2015 and replaced Circular 142. Circular 19 provides that, the conversion of the Renminbi capital from foreign currency registered capital of foreign-invested enterprises may be at foreign-invested enterprises' discretion, which means that the foreign currency

registered capital of foreign-invested enterprises for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry of monetary contribution has been registered) can be settled at the banks based on the actual operational needs of the enterprises. However, Circular 19 maintains the restriction that Renminbi converted from foreign exchange capital contributions of foreign invested enterprises can only be applied to activities within the approved business scope of the relevant foreign invested enterprise and cannot be used for domestic equity investment or acquisition.

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

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

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

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

The national and regional economies may be adversely affected by a recurrence of SARS or an outbreak of other epidemics, natural disasters or severe weather conditions, thereby affecting our business prospects

In May 2008, a major earthquake and aftershocks struck Sichuan province in southwestern China. The epicenter was approximately 80 kilometers from Chengdu. In April 2013, another earthquake and aftershocks struck Sichuan province again and the epicenter was approximately 100 kilometers from Chengdu. We had 13 development projects comprised of three developed projects and ten projects that were under development or held for future development in Chengdu. While none of these projects suffered any material physical damages from the earthquake, some completed properties suffered minor damages such as cracks on the walls. While we do not have any legal liability to our customers for such damages as they were caused by the earthquake, which constitutes force majeure, we decided to repair

such cracks for our customers at our own costs in order to increase our customer satisfaction and enhance our reputation as a responsible property developer. After the 2008 earthquake, construction of our projects in Chengdu was also suspended for about two months in compliance with orders issued by the local government that were applicable to all construction projects in Chengdu after the earthquake. Sale of our properties in Chengdu also dropped significantly during the few months after the 2008 earthquake. Our business could be materially adversely affected if any other natural disasters occur in the regions that we have business. In addition, certain areas of China are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“SARS”), the H1N1 influenza, also known as swine flu, or avian influenza, or the COVID-19 pandemic, natural disasters or severe weather conditions. For risks relating to the COVID-19 pandemic, see “– Risks Relating to Our Business – Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic”. In April 2013, there were reports of cases of H7N9 avian flu in southeast China, including deaths in Shanghai. A recurrence of SARS, an outbreak of H1N1, H7N9 or avian influenza or any other epidemics, natural disasters or severe weather conditions in China could adversely affect the regional and national economies of Asia, including China, and could also result in material disruptions to our property developments and property related services and reduce the value of our investment properties, which in turn would adversely affect our financial condition and results of operations.

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

Creditors, including trade creditors of Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries’ assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2019, our Non-Guarantor Subsidiaries had total debt in the amount of RMB19,781.4 million (US\$2,841.4 million), capital commitments in the amount of RMB13,791.6 million (US\$1,981.0 million) and contingent liabilities arising from guarantees in the amount of RMB12,166.6 million (US\$1,747.6 million). The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes.

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

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2019, our total borrowings (excluding the May 2016 Notes, the October 2016 Notes, the July 2017 Notes, the March 2018 Notes, the First December 2018 Notes, the Second December 2018 Notes, the March 2019 Notes, the April 2019 Notes, the July 2019 Notes, the 2015 Onshore Bonds, 2016 Onshore Bonds and the 2019 Corporate Bonds) amounted to RMB13,985.4 million (US\$2,008.9 million). Subsequent to December 31, 2019, we also issued the January 2020 Notes, the June 2020 Notes and the July 2020 Notes. As of December 31, 2019, we had PRC loans amounting to RMB6,430.2 million (US\$923.6 million) due within one year. Our indebtedness under the First December 2018 Notes and March 2019 Notes are due in 2020. Our indebtedness under certain tranches of the 2016 Onshore Bonds will also mature in 2020. See “Description of Material Indebtedness and Other Obligations” for more details. As a result, we are subject to refinancing risks against such maturing indebtedness. We cannot assure you that we would be able to refinance our indebtedness, including those due in 2020, in a timely manner on acceptable terms or at all. The risk is exacerbated by the current volatility in the global capital and credit markets.

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the Indenture and the indentures governing the Existing Pari Passu Secured Indebtedness (as defined in the “Description of the Notes”), our ability to incur additional debt is subject to limitations on indebtedness and preferred stock covenants. Under such covenants, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated Net Income (which is a significant component of Consolidated EBITDA) for the Notes includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenants could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenants do not typically include such unrealized gains in the definition of consolidated net income. In addition, because our definition of Consolidated Interest Expense for the Notes excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense 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 covenants would typically include such interest expense in the definition of consolidated interest expense. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, there is no assurance that we will be able to generate sufficient cash flow for these purposes. In addition, certain of our PRC loans are guaranteed by our executive director and controlling shareholder, Ms. Zeng and/or our chairman, executive director and chief executive officer, Mr. Pan. If we are unable to service our indebtedness, or if our guarantors are unable to perform their guarantee obligations and we are unable to secure alternative guarantees, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

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

We may sell a significant amount of shares of capital stock of our PRC Non-Guarantor Subsidiaries that remain Restricted Subsidiaries immediately after the sale, if and when we consider appropriate

Under the terms of the Notes, we will have the flexibility to sell a significant amount of shares of capital stock of one or more of our PRC Non-Guarantor Subsidiaries which hold all or substantially all of our properties and assets to independent third parties in an initial public offering and listing of the shares of capital stock of any such PRC Non-Guarantor Subsidiary, and have them remain Restricted Subsidiaries immediately after the sale as long as we own at least 30% equity interest in such PRC Non-Guarantor Subsidiaries immediately after the sale, if and when we consider appropriate and if our other senior notes that do not have this flexibility are fully redeemed or their terms are similarly amended. Unlike pursuant to the terms of senior notes issued by many comparable issuers in the market, such sale under the terms of the Notes will (i) not be considered a sale of “all or substantially all” of our assets under the Indenture and thus be exempted from key requirements of the “Consolidation, Merger and Sale of Assets” covenant, and (ii) not constitute a “Change of Control” under the Indenture.

As these PRC Non-Guarantor Subsidiaries will remain Restricted Subsidiaries and their results will be consolidated in our financial statements in accordance with GAAP immediately after such sale, for purposes of calculating “Consolidated Net Income” under the Indenture, the net income (or loss) of such PRC Non-Guarantor Subsidiaries will be fully included. However, as they will not be our Wholly Owned Restricted Subsidiaries, to the extent they make any distributions to their shareholders after such sale, we may only receive distributions in proportion to our percentage ownership interest in them. In addition, while we will have to comply with the “Limitation on Asset Sales” covenant, including using the proceeds of such sale in accordance with the covenant, we may not be able to deploy the proceeds in a timely manner (or at all) to acquire assets that generate cash flow comparable to that of those that have been sold. Accordingly, you are cautioned as to any such sale of a significant amount of shares of our PRC Non-Guarantor Subsidiaries holding all or substantially all of our properties and assets, which may materially and adversely affect our business, financial condition, results of operations and prospects.

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

We plan to designate subsidiaries within the Colour Life Group and a number of other subsidiaries as Unrestricted Subsidiaries on the Original Issue Date under the Indenture. As of December 31, 2019, Colour Life managed a total GFA of over 550.1 million sq.m. In 2019, the revenue of the Colour Life Group accounted for approximately 20.2% of our total revenue. The Colour Life Group has become increasingly important for us to withstand economic cycle risks and achieve stable profits. Subject to certain conditions, including, among other things, the absence of a continuing default at the time of and after giving effect to such designation, we may also designate any Restricted Subsidiary as an Unrestricted Subsidiary in the future. In addition, we have the flexibility under the terms of the Notes to designate any subsidiary in the Restructuring Group (as defined under “Description of the Notes – Definitions”) as Unrestricted Subsidiaries. The effects of designation of an entity as an Unrestricted Subsidiary include, but are not limited to:

- the business, assets and liabilities of such entity will no longer be part of the credit underlying the Notes;
- such entity will not be subject to the restrictive covenants applicable to Restricted Subsidiaries under the Indenture;

- as applicable, the Subsidiary Guarantees of such entity may be released, and the shares of such entity previously pledged to the collateral agent or the trustee for the benefit of the holders of the Notes may be released; and
- interest expenses on Indebtedness (as defined in the Indenture) of such entity will not be included in the calculation of our Consolidated Interest Expense (as defined under “Description of the Notes – Definitions”), other than such interest expenses on Indebtedness that is Guaranteed by the Company or a Restricted Subsidiary.

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

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

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. Pursuant to the loan agreements with certain PRC banks, several of our PRC subsidiaries are subject to certain dividend distribution limitations. See “Description of Material Indebtedness and Other Obligations – PRC Loan Agreements.” In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. As a result of such restrictions, there could be limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy the obligations of the Subsidiary

Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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

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

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

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

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

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

In addition, the definition of a Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control Triggering Event for purposes of the Indenture also includes a phrase relating to the sale of “all or substantially all” of our assets. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to

purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

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

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

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

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

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

In the event we are treated as a PRC “resident enterprise”, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of

such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes – Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in specified tax law or certain other circumstances, including any change in interpretation or statement of the official position that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

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

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

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

We may be unable to obtain and remit foreign exchange

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

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

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate

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

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

The Indenture includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

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

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

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

In light of land prices, sizes of projects and other factors, we may from time to time consider developing property developments jointly with other PRC property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted

Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications, including, among others, that we may, subject to certain conditions, make investments in any Unrestricted Subsidiaries and minority owned joint ventures primarily engaged in permitted business up to an aggregate amount equal to 25% of our total assets, without satisfying the Fixed Charge Coverage Ratio requirement. See “Description of the Notes.”

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

The Additional Notes are a new issue of securities for which there is currently no trading market. Although application has been made to the SGX-ST for the listing and quotation of the Additional Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing of the Additional Notes on the SGX-ST or that the Additional Notes will be listed on the business day immediately following the settlement date. Even if the Additional Notes are listed, a liquid trading market may not develop. We have been advised that the Initial Purchasers intends to make a market in the Additional Notes, but the Initial Purchasers is not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Additional Notes are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Additional Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. See the section entitled “Transfer Restrictions.” No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for the Additional Notes. If an active trading market does not develop or is not continued, the market price and liquidity of the Additional Notes could be adversely affected.

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

We have been assigned a long-term corporate credit rating of B with a stable outlook by Standard and Poor’s Rating Services and a corporate family rating of B2 with a stable outlook by Moody’s Investors Service, a long-term issuer default rating of B+ with a stable outlook from Fitch Rating Ltd. The Additional Notes are expected to be rated B3 by Moody’s Investors Service and B by Standard and Poor’s Rating Service. We cannot assure you that these ratings will be confirmed or that they will not be adversely revised or withdrawn either before or after delivery of the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal.

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

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a “connected person” of such listed company, on the other hand, is a “connected transaction” that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of “connected person” to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of

such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

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

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

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

There may be less publicly available information about us than is available in certain other jurisdictions

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

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

For so long as the Notes are listed on the SGX-ST, we will be subject to continuing listing obligations in respect of the Notes. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries or regions such as the United States or 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, the JV Subsidiary Guarantees and the Collateral

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

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. See the section entitled “Description of the Notes — The Subsidiary Guarantees and JV Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries. Moreover, the charge over the shares of the offshore subsidiaries of the Company (the “Collateral”) will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC 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. See the section entitled “— 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.”

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

In addition, a Subsidiary Guarantee 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 a third party of a minority interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions including a cap on the non-guaranteed portion of the assets of JV Subsidiary Guarantors). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company.

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

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, the BVI, Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may be established, 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:

- 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 the incurrence of such guarantee;
- 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 applicable jurisdiction. 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 properties 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 debts as they became absolute and matured.

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 guarantor. 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.

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 without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be), subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor, or holds the Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor 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 (as the case may be), and would solely be creditors of us and any Subsidiary Guarantors or JV Subsidiary Guarantors whose guarantees have not been 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, the Cayman Islands and the BVI at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock 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 section entitled “– 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” above.

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 is unlikely to be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness

The Collateral consists only of the capital stock of certain initial 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 Trustee, on behalf of the holders of the Notes, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise will be subject in certain instances to perfection and priority status. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Trustee 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 its nature, the Collateral, which consists solely of the capital stock of any existing or future Subsidiary Guarantor, is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be 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 and the Existing *Pari Passu* Secured Indebtedness (as defined in the “Description of the Notes”) and may be shared on a *pari passu* basis with holders of other indebtedness ranking *pari passu* with the Notes that we may issue in the future. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of such secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the obligations of the Company and each of the Subsidiary Guarantor Pledgors 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 the Notes or other *pari passu* indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

The pledge of certain Collateral may be released under certain circumstances

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.

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

The Collateral Agent (as defined under “Description of the Notes – Definitions”) is required to take action to enforce the Collateral in accordance with the instructions of the holders of the Notes, the holders of the Existing *Pari Passu* Secured Indebtedness (as defined in the “Description of the Notes – Definitions”), and holders (or representatives or agents) of the Permitted *Pari Passu* Secured Indebtedness (as defined under “Description of the Notes – Definitions”), given under and in accordance with the Intercreditor Agreement. Any enforcement action taken by the Collateral Agent will adversely affect the Company’s entitlement to receive distributions from the Collateral, which will, in

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

The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as 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, the Existing Pari Passu Secured Indebtedness or the Permitted Pari Passu Secured Indebtedness (as defined in the "Description of the Notes – Definitions") unless such holders have offered to the Collateral Agent indemnity and/or security satisfactory to the Collateral against any loss, liability or expense.

USE OF PROCEEDS

The gross proceeds from this offering, before deducting the underwriting discounts and commissions payable by us in connection with this offering, will be US\$201.6 million, which we plan to use for refinancing certain of our offshore existing indebtedness that are due within one year.

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”).

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

On May 18, 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. The 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. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

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

Period	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(RMB per US\$1.00)		
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015	6.4778	6.2827	6.4896	6.1870
2016	6.9430	6.6400	6.9580	6.4480
2017	6.5063	6.7564	6.9060	6.5063
2018	6.8755	6.6090	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
February	6.9906	6.9967	7.0286	6.9650
March	7.0808	7.0205	7.1099	6.9244
April	7.0622	7.0708	7.0989	7.0341
May	7.1348	7.1016	7.1681	7.0622
June	7.0651	7.0816	7.1263	7.0575
July	6.9744	7.0041	7.0703	6.9744
August (through August 7, 2020)	6.9670	6.9612	6.9799	6.9353

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the daily rates during the respective months or years.

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	Noon buying rate			
	Period end	Average ⁽¹⁾	High	Low
		(HK per US\$1.00)		
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7545	7.7669	7.7495
2015	7.7507	7.7524	7.7686	7.7495
2016	7.7534	7.7620	7.8270	7.7505
2017	7.8128	7.7926	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020				
February	7.7927	7.7757	7.7951	7.7630
March	7.7513	7.7651	7.7863	7.7511
April	7.7514	7.7512	7.7530	7.7498
May	7.7513	7.7519	7.7561	7.7500
June	7.7501	7.7501	7.7514	7.7498
July	7.7500	7.7509	7.7538	7.7499
August (through August 7, 2020)	7.7504	7.7502	7.7504	7.7500

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the daily rates during the respective months or years.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2019 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes, without taking into account the underwriting discounts, commissions and other estimated expenses payable by us. The following table should be read in conjunction with the selected consolidated financial information and the audited consolidated financial statements and related notes included in the offering memorandum.

	As of December 31, 2019			
	Actual		As adjusted	
	RMB	US\$	RMB	US\$
	(unaudited)		(unaudited)	
	(in thousands)			
Cash and cash equivalents⁽¹⁾	18,262,559	2,623,252	19,666,006	2,824,845
Short-term Borrowings⁽²⁾				
Borrowings – due within one year	6,430,202	923,641	6,430,202	923,641
Senior notes and bonds ⁽³⁾	4,963,714	712,993	4,963,714	712,993
Assets-backed securities issued	87,483	12,566	87,483	12,566
Amount due to joint ventures, associates and related party	843,853	121,212	843,853	121,212
Total current borrowings	<u>5,895,050</u>	<u>846,771</u>	<u>5,895,050</u>	<u>846,771</u>
Non-current borrowings⁽³⁾				
Borrowings – due after one year	7,555,160	1,085,231	7,555,160	1,085,231
Senior notes and bonds ⁽³⁾	19,119,556	2,746,352	19,119,556	2,746,352
Asset backed securities issued	17,065	2,451	17,065	2,451
Notes to be issued	–	–	1,403,447	201,593
Total non-current borrowings	<u>26,691,781</u>	<u>3,834,034</u>	<u>29,095,228</u>	<u>4,035,627</u>
Total equity	<u>20,591,988</u>	<u>2,957,854</u>	<u>20,591,988</u>	<u>2,957,854</u>
Total capitalization⁽⁴⁾	<u>47,283,769</u>	<u>6,791,888</u>	<u>48,687,216</u>	<u>6,993,481</u>

Notes:

- (1) Cash and cash equivalents exclude restricted/pledged bank deposits of RMB2,664.7 million (US\$382.8 million).
- (2) Subsequent to December 31, 2019, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property developments and for general corporate purposes. See “Description of Material Indebtedness and Other Obligations.” These additional borrowings are not reflected in the table above.
- (3) Senior notes and bonds refer to the May 2016 Notes, the October 2016 Notes, the March 2018 Notes, the First December 2018 Notes, the Second December 2018 Notes, April 2019 Notes and July 2019 Note. Bonds refer to the 2015 Onshore Bonds and the 2016 Onshore Bonds. For the avoidance of doubt, the as-adjusted information for senior notes and bonds do not give effect to the Tender Offer.
- (4) Total capitalization includes total long-term borrowings plus total equity.

Subsequent to December 31, 2019, we issued offshore and onshore notes or corporate bonds and entered into short-term or long-term financings in various forms, including, among others, the issuance of the January 2020 Notes on January 9, 2020, the issuance of the June 2020 Notes on June 1, 2020 and the issuance of the July 2020 Notes on July 28, 2020. We also completed the Tender Offer of our March 2018 Notes. See “Business – Recent Development.”

After the completion of this offering, we may incur additional debt, including Renminbi denominated borrowings or other debt securities. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since December 31, 2019.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated statement of comprehensive income data for 2017, 2018 and 2019 and the selected consolidated statement of financial position data as of December 31, 2017, 2018 and 2019 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Deloitte, the independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Statement of Comprehensive Income and Other Financial Data

	For the year ended December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
	(in thousands)			
Revenue	9,782,568	13,986,133	19,081,577	2,740,897
Cost of sales and services	(6,884,964)	(9,802,167)	(13,744,216)	(1,974,233)
Gross profit	2,897,604	4,183,966	5,337,361	766,664
Other income, gains and losses	1,009,049	711,522	1,329,347	190,949
Impairment losses net of reversal	(62,012)	(82,424)	(139,628)	(20,056)
Change in fair value of investment properties	966,184	136,802	(6,165)	(886)
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	118,589	82,409	(1,110)	(159)
Selling and distribution expenses	(417,872)	(439,032)	(469,538)	(67,445)
Administrative expenses	(1,167,835)	(1,389,214)	(1,361,840)	(195,616)
Finance costs	(1,279,587)	(1,464,674)	(1,831,761)	(263,116)
Share of results of associates	8,843	34,880	10,738	1,542
Share of results of joint ventures	167,670	(11,140)	(29,626)	(4,256)
Gain on disposal of subsidiaries	<u>326,285</u>	<u>1,273,824</u>	<u>944,903</u>	<u>135,727</u>
Profit before taxation	2,566,918	3,036,919	3,782,681	543,348
Income tax expense	<u>(1,157,207)</u>	<u>(1,868,735)</u>	<u>(2,280,776)</u>	<u>(327,613)</u>
Profit for the year/period	<u><u>1,409,711</u></u>	<u><u>1,168,184</u></u>	<u><u>1,501,905</u></u>	<u><u>215,735</u></u>
Profit for the year attributable to:				
Owners of the Company	1,154,316	728,339	873,644	125,491
An owner of perpetual capital instrument	–	–	–	–
Other non-controlling interests	<u>255,395</u>	<u>439,845</u>	<u>628,261</u>	<u>90,244</u>
	<u><u>1,409,711</u></u>	<u><u>1,168,184</u></u>	<u><u>1,501,905</u></u>	<u><u>215,735</u></u>
Other Financial Data (unaudited)				
EBITDA ⁽¹⁾	3,971,648	5,915,265	8,687,512	1,247,883
EBITDA margin ⁽²⁾	41%	42%	46%	46%

Notes:

- (1) EBITDA for any period primarily consists of profit from operating activities before change in fair value of investment properties, option derivatives and certain financial assets, impairment loss recognized in respect of goodwill, net finance cost plus income tax, depreciation and amortization expenses. Finance cost includes those interest expense previously capitalized as assets and currently released to cost of sales and services in the consolidated statement of profit or loss and other comprehensive income. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial

indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for a reconciliation of our profit 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. See the section entitled "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture.

- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Selected Consolidated Statement of Financial Position

	As of December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Non-current Assets				
Property, plant and equipment	2,611,084	2,596,806	2,172,059	311,997
Right-of-use assets	–	–	1,049,134	150,699
Investment properties	10,194,164	10,515,977	11,924,404	1,712,833
Interests in associates	1,174,908	1,346,586	757,497	108,808
Interests in joint ventures	1,060,057	1,426,958	2,686,998	385,963
Available-for-sale investment	117,663	–	–	–
Equity instruments designated at FVTOCI	–	51,551	60,086	8,631
Goodwill	2,299,758	2,339,723	2,398,921	344,583
Intangible assets	1,319,901	1,188,896	1,129,725	162,275
Prepaid lease payments	754,720	206,743	–	–
Premium on prepaid lease payments	1,268,992	76,418	–	–
Other receivables	167,624	158,698	610,511	87,694
Contract assets	–	–	22,229	3,193
Amount due from related parties	–	81,505	958,190	137,635
Pledged bank deposits	–	558,457	547,500	78,643
Deposits paid for acquisition of subsidiaries and investment in associates and joint ventures	799,606	194,427	852,027	122,386
Deposits paid for acquisition of a property project	159,214	202,961	–	–
Deposit paid for acquisition of land use rights	118,103	228,703	–	–
Deferred tax assets	461,990	565,707	710,650	102,078
	<u>22,507,784</u>	<u>21,740,116</u>	<u>25,879,931</u>	<u>3,717,419</u>
Current Assets				
Inventories	194,655	544,407	117,177	16,831
Properties for sale	23,777,966	34,882,404	35,473,562	5,095,458
Prepaid lease payments	18,228	6,750	–	–
Premium on prepaid lease payments	19,233	2,548	–	–
Contract assets	–	449,590	736,724	105,824
Contract costs	–	201,414	410,502	58,965
Trade and other receivables	4,129,404	5,938,028	7,864,902	1,129,722
Tax recoverable	85,990	105,212	337,503	48,479
Financial assets at fair value through profit or loss	234,460	2,127,196	1,449,051	208,143
Amount due from a joint venture	–	–	–	–
Amount due from associates	–	–	–	–
Amount due from non-controlling shareholders of the subsidiaries of the Company	–	–	–	–
Amount due from related parties	1,547,393	436,411	832,459	119,575
Derivative financial instruments	–	–	1,241	178
Restricted/pledged bank deposits	2,106,552	1,789,411	2,117,174	304,113
Bank balances and cash	14,335,074	26,222,584	20,379,733	2,927,365
	<u>46,448,955</u>	<u>72,705,955</u>	<u>69,720,028</u>	<u>10,014,655</u>

	As of December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Current Liabilities				
Trade and other payables	9,282,468	10,393,583	8,398,790	1,206,411
Contract liabilities	–	13,039,071	19,160,338	2,752,210
Derivative financial instruments	–	–	13,759	1,976
Amount due related parties	–	356,189	843,853	121,212
Tax liabilities	4,431,080	5,504,651	6,347,498	911,761
Borrowings – due within one year	3,022,026	7,959,810	6,430,202	923,641
Lease liabilities	–	–	95,181	13,672
Obligations under finance leases	51,693	69,164	–	–
Senior notes and bonds	4,484,610	6,397,660	4,963,714	712,993
Assets backed securities issued	42,533	208,636	87,483	12,566
Provision	40,131	30,740	37,440	5,378
Other current liabilities	220	2,625	–	–
	<u>26,895,112</u>	<u>43,962,129</u>	<u>46,378,258</u>	<u>6,661,820</u>
Net Current Assets	<u>19,553,844</u>	<u>28,743,826</u>	<u>23,341,770</u>	<u>3,352,835</u>
Total Assets less				
Current Liabilities	<u>42,061,628</u>	<u>50,483,942</u>	<u>49,221,701</u>	<u>7,070,255</u>
Non-Current Liabilities				
Deferred tax financial instrument	–	–	18,945	2,721
Deferred tax liabilities	1,754,528	1,734,943	1,569,772	225,484
Borrowings – due after one year	6,841,619	11,195,744	7,555,160	1,085,231
Lease liabilities	–	–	349,215	50,162
Obligations under finance leases	259,299	236,880	–	–
Senior notes and bonds	15,320,332	17,810,083	19,119,556	2,746,352
Assets backed securities issued	185,204	51,783	17,065	2,451
	<u>24,363,597</u>	<u>31,029,433</u>	<u>28,629,713</u>	<u>4,112,401</u>
	<u>17,698,031</u>	<u>19,454,509</u>	<u>20,591,988</u>	<u>2,957,854</u>
Capital and Reserves				
Share capital	497,868	497,945	498,359	71,585
Reserves	<u>12,139,049</u>	<u>12,465,583</u>	<u>13,237,883</u>	<u>1,901,503</u>
Equity attributable to owners of the Company	12,636,917	12,963,528	13,736,242	1,973,088
Total non-controlling interests	<u>5,061,114</u>	<u>6,490,981</u>	<u>6,855,746</u>	<u>984,766</u>
	<u>17,698,031</u>	<u>19,454,509</u>	<u>20,591,988</u>	<u>2,957,854</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 consolidated financial statements were prepared 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 "2017", "2018" and "2019" refer to our financial years ended December 31, 2017, 2018 and 2019, respectively.

Overview

We are a leading property developer and property related service provider in China. Our target customers are affluent middle- to upper-class individuals and families and small- to medium-sized enterprises. Our regions of focus are currently the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China.

As of December 31, 2019, we had a total of 65 projects or phases of projects at various stages of development (including completed projects, projects under development and projects held for future development), including 28 projects located in the Chengdu-Chongqing Metropolitan Area, eight projects located in the Guangdong-Hong Kong-Macao Greater Bay Area, nine projects located in the Yangtze River Delta Metropolitan Area, 10 projects located in the Bohai Rim Metropolitan Area, nine projects located in Central China Metropolitan Area and one project located in Singapore.

As of December 31, 2019, we had a total land bank of approximately 11.2 million square meters. Of our total land bank as of December 31, 2019, approximately 6.2 million square meters, or 55.4%, were located in the Chengdu-Chongqing Metropolitan Area; approximately 1.0 million square meters, or 8.9%, were located in the Guangdong-Hong Kong-Macao Greater Bay Area; approximately 1.3 million square meters, or 11.6%, were located in the Yangtze River Delta Metropolitan Area; approximately 1.3 million square meters, or 11.6%, were located in the Bohai Rim Metropolitan Area; approximately 1.4 million square meters, or 12.5%, were located in Central China Metropolitan Area. We develop most of our properties, including properties that are currently under development, for sale but will hold certain of these developed properties for investment and hotel management purposes.

In addition to property development, we provide property operation services to properties that are developed by us as well as those developed by others.

For the years ended December 31, 2017, 2018 and 2019, our revenue was RMB9,782.6 million, RMB13,986.1 million and RMB19,081.6 million (US\$2,740.9 million), respectively. For the same periods, our profit for the year or period was RMB1,409.7 million and RMB1,168.2 million and RMB1,501.9 million (US\$215.7 million), respectively.

Key Factors Affecting Our Results of Operations

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

Economic Conditions and Regulatory Environment in the PRC

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

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

In addition, if there is a downturn in the global economy, the PRC economy or in any of the property markets in which we have operations or a decrease in the pace of urbanization, our financial condition and results of operations may be materially and adversely affected. See “Risk Factors – Risks Relating to Our Business – We rely heavily on the strong performance of the property market in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China” and “Risk Factors – Risks Relating to Our Business – We may be adversely affected by fluctuations in the global economy and financial markets.”

PRC governmental policies and measures regarding property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among other things, the supply of land, pre-sales of properties, land usage, plot ratios, bank financing and taxation. In recent years, in response to rising property prices across the country, the PRC government has implemented a series of measures aimed at controlling prices in the real estate market. Various administrative bodies have introduced policies and measures to discourage speculation and impose more stringent requirements on property developers. These measures require, among other things, higher minimum down payments from purchasers, new restrictions on the purchase of properties, that a minimum portion of investment in property projects be devoted to affordable and commodity housing and increases in bank lending rates for mortgage financing. A substantial portion of our customers make down payments and rely on mortgage financing to purchase our properties. Accordingly, regulations or measures adopted by the PRC government that are intended to increase down payment requirements, restrict the ability of purchasers to obtain mortgages, limit their ability to resell their properties or increase the cost of mortgage financing may decrease market demand for our properties and adversely affect our results of operations. Measures taken by the PRC government to control the money supply, credit availability and fixed asset investment also have a direct impact on our business and results of operations. Furthermore, the PRC government may introduce initiatives which may affect our access to capital and the means by which we can finance our property development. See “Risk Factors – Risks Relating to Industry –PRC government policies, regulations and measures

intended to curtail the overheating of the property market may adversely affect our business.” Furthermore, our continuing growth depends, to a significant extent, on our ability to expand into other regions and cities. We intend to further expand into other regions in the future. We may not have the same level of familiarity with local regulatory environment. If we cannot successfully leverage our experience or understand the property market in our target cities for expansion, our business, results of operations, financial condition and prospects will be adversely affected.

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

Costs of Labor, Construction Materials and Building Equipment

Our results of operations are affected by the costs of labor, construction materials such as steel and cement, and building equipment. As a result of the economic growth and the boom in the property development industry in the PRC, wages for construction workers and the prices of construction materials and building equipment have experienced substantial increase in recent years. To the extent that we are not able to pass such increased costs on to our customers, our gross margin and our results of operations would be adversely affected.

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

Availability and Cost of Land

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase land reserves suitable for the development of our projects at commercially acceptable prices. Land acquisition costs are one of the primary components of our cost of sales for property development, which is consisted of land premium and where necessary, the cost of demolition of existing buildings and relocation of residents. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC's governmental land supply policies and implementation measures are likely to further intensify the competition, and consequently increase the land acquisition costs. In order to participate in the public tender, auction and listing-for-sale processes, we are required to pay a deposit upfront, which typically represents a portion of the actual cost of the relevant land and we are required to settle the land premium within a certain period after signing the land grant contract in accordance with applicable laws and regulations. Such requirements accelerate the timing of our payment of land acquisition costs and has a significant impact on our cash flows. We cannot assure you that the PRC government will not implement further policies or measures to further restrict land supply. Such change of policy may materially and adversely affect our cash flow and our ability to acquire suitable land for our operations.

LAT

We are subject to LAT with respect to the appreciated value of land. LAT applies to both domestic and foreign developers and investors in real properties in China, irrespective of whether they are corporate entities or individuals. We incurred LAT expenses of RMB557.6 million, RMB803.1 million and RMB923.3 million (US\$132.6 million) in 2017, 2018 and 2019, respectively. We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, the provision for LAT requires our management to use a significant amount of judgment and estimates with respect to, among other things, the anticipated proceeds to be derived from the sale of the entire phase of the project or the entire project, the amount of land appreciation and the various deductible items. The relevant PRC local tax authorities may not agree with our estimates or the basis on which we calculate our LAT liabilities. If the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flows will be materially and adversely affected. See "Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – J. Major Taxes Applicable to Property Development Enterprises – (iii) Land Appreciation Tax."

Access to and Cost of Financing

Borrowing is an important source of funding for our property developments. As of December 31, 2017, 2018 and 2019, our outstanding borrowings (excluding the May 2016 Notes, the October 2016 Notes, the March 2018 Notes, the First December 2018 Notes, the Second December 2018 Notes, the April 2019 Notes and the July 2019 Notes) amounted to RMB9,863.7 million, RMB19,155.6 million and RMB13,985.4 million (US\$2,008.9 million), respectively. As of December 31, 2019, our outstanding borrowings amounted to RMB38,068.6 million (US\$5,468.2 million). As commercial banks in China link the interest rates on their borrowings to the benchmark lending rates published by the PBOC, any increase in such benchmark lending rates will increase the interest costs for financing our developments. Our access to capital and cost of financing are affected by restrictions imposed from time to time by the PRC government on bank lending for property development. A significant portion of our finance costs are capitalized rather than being expensed at the time they are incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase.

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

Timing of Property Development

The development of property projects requires significant time. It may take several months, years, or even longer, from the start of development to pre-sales of properties. We do not recognize revenue until properties have been sold, completed and delivered to our customers. Due to fluctuations in the market demand, the revenue that we recognize in a particular period may also be affected by market conditions at the time a particular property project is pre-sold or sold. Moreover, delays in construction, regulatory approval or other processes may adversely affect the completion timetable of our projects and, therefore, our recognition of revenue from our projects.

Changes in Product Mix

The prices and gross profit margins of our products vary by the type of properties we develop and sell. Our gross profit margin is affected by the proportion of sales revenue attributable to our high gross margin products compared to sales revenue attributable to lower gross margin products. Commercial properties and office spaces in general command higher selling prices than residential properties, and the proportion of commercial/office and residential properties sold may affect our revenue and profitability during the relevant period. In addition, properties in larger scale projects will typically command a higher selling price as the overall development approaches completion due to the attractiveness of a more established development, thereby increasing our gross margin during the relevant period. Our product mix varies from period to period due to a number of reasons, including government-regulated plot ratios, project locations, land size and cost, market conditions and our development planning. We adjust our product mix from time to time, and time our project launches according to our development plans.

Change in Fair Value of our Investment Properties

Under HKFRS, we are required to reassess the fair value of our completed investment properties as of the date of the consolidated statement of financial position, and gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statement of comprehensive income in the period in which they arise. As of December 31, 2017, 2018 and 2019, the fair value of our investment properties, which include investment properties that are under development, RMB10,194.2 million, RMB10,516.0 million and RMB11,924.4 million (US\$1,712.8 million), respectively. In 2017 and 2018, we experienced a gain on fair value changes of investment properties of RMB966.2 million and RMB136.8 million, respectively. In 2019, we experienced a loss on fair value changes of investment properties of RMB6.2 million (US\$0.9 million). The fair value of our investment properties may have been higher or lower if the valuer used a different set of bases or assumptions or if the valuation was conducted by other independent professional valuers. The fair value of each of our investment properties is likely to continue to fluctuate from time to time in the future, and volatility of our results of operations may increase as a result of fair value gains or losses. Any decrease in the fair value of our investment properties would adversely affect our profitability. We cannot assure you that we will record fair value gains, or that we will not record fair value losses, in the future. In addition, fair value gains or losses do not give rise to any change to our cash position unless the relevant investment property is sold. Therefore, we may experience constraints on our liquidity even though our profitability increases.

Pre-sales

Proceeds from pre-sales of properties under development constitute the most important source of our operating cash inflow during our project development process. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain conditions and requires us to use the pre-sale proceeds to develop the projects that are pre-sold. The amount and timing of cash received from pre-sales are affected by a number of factors, including timing and other restrictions on pre-sales imposed by the relevant PRC laws and regulations, market demand and the number for our properties that are available for pre-sale. A restriction on our ability to engage in the pre-sales of our properties could result in a reduced cash inflow, which would increase our reliance on external financing and increase our finance costs, which could have an adverse effect on our ability to finance our continuing property developments and our results of operations.

Certain Income Statement Items

Revenue

Our revenue comprises revenue derived from (i) sales of our developed properties, (ii) lease of investment properties, (iii) provision of property agency and related services, (iv) provision of property operation and related services, and (v) provision of hotel management and related services. The following table sets forth the revenue attributable to each of the components above:

	For the year ended December 31,						
	2017		2018		2019		
	(RMB)	(%)	(RMB)	(%)	(RMB)	(US\$)	(%)
	(unaudited)		(unaudited)		(unaudited)		(unaudited)
	(in thousands, except percentages)				(in thousands, except percentages)		
Property development	6,598,470	67.5	8,554,508	61.2	13,226,346	1,899,846	69.3
Property investment	243,187	2.5	252,509	1.8	199,778	28,696	1.0
Property agency services	57,967	0.6	129,666	0.9	94,332	13,550	0.5
Property operation services	2,015,378	20.6	4,157,566	29.7	4,665,570	670,167	24.5
Hotel services	134,033	1.4	135,700	1.0	123,478	17,737	0.6
Others	733,533	7.5	756,184	5.4	772,073	110,901	4.0
Total	<u>9,782,568</u>	<u>100.0</u>	<u>13,986,133</u>	<u>100.0</u>	<u>19,081,577</u>	<u>2,740,897</u>	<u>100.0</u>

Property Development

We recognize revenue from the sale of a property when the significant risks and rewards of ownership have been transferred to the purchaser, which is when the relevant property has been completed and the possession of the property has been delivered to the purchaser. Revenue from property development represents proceeds from sales of our properties held for sales. As we derive a majority of our revenue from property development, our results of operations for a given period depend upon the GFA of our properties available for sale during that period, the market demand for those properties and the selling prices of such properties. Conditions of the property markets in which we operate change from period to period and are affected by the economic, political and regulatory developments in the PRC in general as well as in the cities and regions in which we operate. See “– Key Factors Affecting Our Results of Operations.” The table below sets forth, for the periods so indicated, total revenue derived from each of our projects, the aggregate GFA of properties sold, the average selling prices per square meter for these properties, as measured by dividing total revenue by aggregate GFA sold:

For the year ended December 31,

	2017			2018			2019		
	Total	Average selling price	Avg. Selling Price/Square Meter	Total	Avg. Selling Price/Square Meter	Total	Avg. Selling Price/Square Meter		
	Revenue			Revenue		Revenue			
(in RMB thousands)	(square meters)	(in RMB)	(in RMB thousands)	(square meters)	(in RMB)	(in RMB thousands)	(square meters)	(in RMB)	
Chengdu Jiatianxia (成都家天下)	-	-	-	-	-	-	3,278,922	344,504	9,518
Chengdu Zhihui City (成都智營城)	-	-	-	-	-	-	1,545,070	202,304	7,637
Chengdu MIC Plaza (formerly known as Chengdu Meinian International Plaza, 成都美年國際廣場)	-	-	-	696,084	29,821	23,342	3,542,992	155,982	22,714
Chengdu Grande Valley (成都大溪谷)	393,724	35,982	10,942	218,419	18,756	11,645	311,722	32,785	9,508
Chengdu Belle Epoque (成都君山)	1,520	165	9,227	-	-	-	-	-	-
Dongguan Mont Conquerant (東莞君山)	8,401	905	9,288	5,897	500	11,805	-	-	-
Huizhou Fantasia Special Town (惠州別樣城)	20,466	2,096	9,763	28,202	4,760	5,925	8,361	1,386	6,032
Suzhou Lago Paradise (蘇州太湖天城)	259,397	14,421	17,987	178,163	18,761	9,496	13,441	922	14,576
Chengdu Fantasia Town (成都花樣城)	17,815	2,082	8,557	51,549	16,883	3,053	3,632	364	9,969
Chengdu Future Plaza (成都香年廣場)	-	-	-	-	-	-	-	-	-
Chengdu Xiangmendi (成都香門第)	-	-	-	1,587,003	220,268	7,205	12,940	1,202	10,763
Dongguan Wonderland (東莞江山)	7,277	1,103	6,597	16,520	2,648	6,239	-	-	-
Wuxi Love Forever (無錫花郡)	-	-	-	-	-	-	-	-	-
Nanjing Yuhuatai Project (南京花生唐)	-	-	-	-	-	-	-	-	-
Guilin Fantasia Town (桂林花樣城)	36,915	3,482	10,600	18,416	1,072	17,172	3,417	403	8,477
Dali Human Art Wisdom (大理藝墅花鄉)	3,427	355	9,653	90,775	7,246	12,528	-	-	-
Chengdu Funian Plaza (成都福年廣場)	59,905	23,597	2,539	-	-	-	-	-	-
Chengdu Longnian Plaza (成都龍年廣場)	606,420	108,312	5,599	62,361	14,093	4,225	9,581	2,785	3,440
Guilin Lakeside Eden Community (桂林麓湖國際社區)	540,416	100,954	5,353	658,857	123,862	5,319	725,059	109,175	6,641
Huizhou Love Forever (惠州花郡)	17,606	1,408	12,509	5,245	9,804	5,331	8,091	1,369	5,909
Huizhou TCL Project (惠州TCL項目)	1,514,775	174,525	8,679	1,204,108	141,368	8,518	13,210	1,459	9,052
Tianjin Huaxiang (天津花鄉)	-	-	-	121,589	10,248	11,865	-	-	-
Yuecheng No. 9 Garden (悅城九號花園)	-	-	-	972,226	69,929	13,903	929,527	66,133	14,055
Tianjin Love Forever (天津花郡)	277,898	43,445	6,397	-	-	-	-	-	-
Wuxi Xinian Plaza (無錫喜年廣場)	4,667	665	7,022	-	-	-	-	-	-
Wuhan Love Forever (武漢花郡)	99,599	7,903	12,602	110,758	15,366	7,208	5,048	1,060	4,761
Shenzhen Longnian Building (深圳龍年大廈)	7,059	493	14,315	14,633	1,021	14,327	-	-	-
Ningbo Love Forever (寧波花郡)	8,132	682	11,925	18,410	2,020	4,114	-	-	-
Suzhou Xinian Plaza (蘇州喜年廣場)	130,388	7,685	16,967	105,871	5,227	20,255	50,945	2,393	21,293
Chengdu Xinian (成都喜年廣場)	-	-	-	-	-	-	-	-	-
Chengdu Flower Garden (成都花好園)	4,128	1,357	3,043	2,105	681	3,090	-	-	-
Chengdu Love Forever (成都花郡)	624	156	4,003	12,028	1,678	7,168	-	-	-
Wuhan Fantasia Town (武漢花樣城)	766,380	91,614	8,365	87,767	9,566	9,175	7,513	1,868	4,022
Shenzhen Lenian Plaza (深圳樂年廣場)	139,634	6,806	20,516	56,483	2,174	25,984	57,837	2,502	23,116
Shenzhen Lung Kei Sea (深圳龍岐灣)	156,529	2,563	61,080	-	-	-	-	-	-
Novena Love Forever (新加坡花郡)	627,722	5,072	123,762	37,088	231	160,556	-	-	-
Nanjing Xinian Center (南京喜年中心)	830,752	44,534	18,654	424,171	22,031	19,254	111,874	5,827	19,198
Nanjing Fantasia Town (南京花樣城)	-	-	-	877,337	121,217	7,238	747,248	100,126	7,463
Sichuan Meinian Plaza (四川美年廣場)	-	-	-	-	-	-	-	-	-
Ci Xi Joy City (慈溪悅城)	-	-	-	-	-	-	-	-	-
Sichuan Jiastianxia (四川家天下)	-	-	-	-	-	-	-	-	-
Chengdu Longwu (成都龍吾)	-	-	-	-	-	-	289,872	42,541	6,814
Huizhou TCL Kangchangsiji (惠州TCL康城四季)	-	-	-	-	-	-	-	-	-
Chengdu Longnian Building (成都龍年中心)	-	-	-	-	-	-	-	-	-
Others (including sales of carparks and construction of relocation housing)	54,894	-	-	892,443	-	-	1,550,044	-	-
	<u>6,596,470</u>	<u>-</u>	<u>-</u>	<u>8,554,508</u>	<u>-</u>	<u>-</u>	<u>5,731,008</u>	<u>-</u>	<u>-</u>

Consistent with industry practice, we typically enter into purchase contracts with customers while the properties are still under development but after satisfying the conditions for pre-sales in accordance with PRC laws and regulations. See “Business – Property Development – Pre-sale, Sales and Marketing.” In general, there is a time difference, typically ranging from several months to one year, between the time we commence pre-selling properties under development and the completion of the construction of such properties. We do not recognize any revenue from the pre-sales of our properties until such properties are completed and the properties have been delivered to the purchasers, even though we receive payments at various stages prior to delivery. Before the delivery of a pre-sold property, payments received from purchasers are recorded as “Deposits received on sale of properties” under “Current Liabilities” on our consolidated statements of financial position.

Property Investment

Revenue derived from our properties held for investment represents revenue received and receivable from our investment properties, which has historically been generated from the rental of offices, retail shops and car parking spaces, and recognized on a straight-line basis over the relevant lease period. Going forward, we expect that our revenue from investment properties will increase as we develop additional properties and as we expand the properties that are held for investment. We believe the increase of such revenue will help us reduce over-reliance on a particular sector of the property market, diversify our risk exposure and provide us with a stable recurring revenue.

Property Agency Services

Revenue derived from property agency services is recognized when services are provided. This means that for primary property agency services, revenue is recognized when a successful sale of a property has occurred, which is defined in each contract and is usually achieved after the purchaser has executed the purchase contract, made the required down payment, and the purchase contract has been registered with the relevant government authorities. Each agency contract specifies commission rates expressed as a percentage of the project transaction value, defined as the aggregate sales proceeds of all property units we have sold for the project. Typically, agency contracts stipulate that the developer clients are responsible for the cost of promotion and advertising, either by paying the costs directly or reimbursing us for the promotion and advertising costs we have incurred. Commissions are typically settled at the end of a sales period typically lasting several months. During the time between when sales are actually made and the time of collection, commissions are recorded as “trade and other receivables” on our consolidated statement of financial position. Additional revenue may also be earned if certain sales and other performance targets are achieved, and is recognized when the relevant required targets are accomplished. Services are considered provided and revenue is recognized for secondary property brokerage services upon execution of a transaction agreement between the buyer/lessee and the seller/lessor and for property consulting and advisory services when performance obligations under the relevant service contract are completed and the customer accepts the contracted deliverable.

Property Operation Services

Revenue derived from property operation services is recognized when the related services are provided. In early 2011, we commenced to reorganize our property operation services business and since then, have been providing property operation services through our subsidiary Colour Life and its subsidiaries. We have designated “Colour Life” as our brand for middle-to-high end property management and property community services. As of December 31, 2019, Colour Life managed a total GFA of over 550.1 million sq.m. In 2019, the revenue of the Colour Life Group accounted for approximately 20.2% of our total revenue. The Colour Life Group has become increasingly important for us to withstand economic cycle risks and achieve stable profits. Property operation services include property management, building equipment for installations, maintenance, repair and other value-added services, such as secondary property brokerage services after our disposal of Xingyan Property Consultancy, for our properties as well as properties developed by other developers. The time lag between when the invoices are sent to clients and the time of collection is reflected in “trade and other receivables” on our consolidated statement of financial position.

Hotel Services

Revenue derived from hotel management and related services is recognized when such services are provided. We started providing hotel services in December 2008 through our subsidiaries, Shenzhen Caiyue Hotel Management Co., Ltd. and Shenzhen Caiyue Hotel Co., Ltd. Since then, we have expanded this business segment through cooperation with well-known hotel management groups and

have also established our private brand of boutique hotels. We expect our revenue from hotel services will continue to increase in the future as we complete our hotel projects and commence operation of additional hotels, including our own boutique hotels that are currently under development.

Others

Others primarily represents revenue derived from travel agency services, which was generated from the acquisition of Morning Star Travel. Others mainly included the acquisition of Morning Star Group Limited (“Morning Star”) and ASIMCO Investments III Limited (“ASIMCO”) at the end of December 2015 and in June 2016 respectively. Morning Star is principally engaged in tourism development business while ASIMCO is engaged in the production of fuel pumps.

Cost of Sales

Cost of sales for our property development business primarily represents the costs we incur directly for our property development activities. The principal component of cost of sales for our property development business is the cost of properties sold, which includes the direct cost of construction, costs of land and capitalized finance costs on related borrowings during the period of construction.

Construction costs include all of the costs for the design and construction of a project, including payments to third-party contractors and designers and costs of construction materials. Historically, construction material costs, which are generally included in the payments to the construction contractors, particularly the cost of steel and cement, have been a major cause of fluctuations in our construction costs. Price movements of other supplies in relation to property developments, including elevators, interior decoration materials and air conditioning systems, may also increase our construction costs. Costs associated with design and construction of the foundation are another major component of our construction costs and will vary according to the area and height of the buildings as well as the geological conditions of the site. Therefore, construction costs of a property development may be higher if the conditions of a site require more complex designs and processes or more expensive materials in order to provide the necessary foundation support. In addition, with the PRC government’s recent policies aiming to enhance the protection for employees and increased employers’ liability in many circumstances, our labor costs may increase in the future which in turn will increase our construction costs.

Costs of land include costs relating to the acquisition of rights to occupy, use and develop land, and primarily represent 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 costs of land are influenced by a number of factors, including the location of the property, the timing of the acquisition, the project’s plot ratios, the method of acquisition and changes in PRC regulations. We may also be required to pay demolition and resettlement costs.

We capitalize a significant portion of our finance costs to the extent that such costs are directly attributable to the acquisition and construction of a project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project, which typically precedes the receipt of a construction works commencement permit, until the completion of construction. For any given project, the finance costs incurred after the end of the month in which construction on the project is completed are not capitalized, but are instead accounted for as finance costs in the period in which they are incurred.

Our cost of sales for our property investment, property agency services, property operation services and hotel services primarily consists of direct costs related to such business activities, which primarily include, depending on the type of businesses, salaries and commissions, costs of rental, utility and consumable products for our on-site sales offices for our primary property agency services, certain office expenses and advertising and marketing expenses.

The table below sets forth information relating to our cost of sales for each of our business segments and as a percentage of total cost of sales for the periods indicated:

	For the year ended December 31,						
	2017		2018		2019		
	(RMB)	(%)	(RMB)	(%)	(RMB)	(US\$)	(%)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in thousands, except percentages)				(in thousands, except percentages)		
Property development							
Construction costs	2,590,195	50.7	1,051,022	10.7	2,197,606	315,666	16.0
Land use rights	1,500,577	29.3	1,452,933	14.8	4,322,068	620,826	31.4
Capitalized finance costs	1,022,693	20.0	3,456,615	35.3	3,045,423	437,448	22.2
Total property development	5,113,465	74.3	5,960,570	60.8	9,565,097	1,373,940	69.6
Property investment	17,419	0.3	85,767	0.9	67,856	9,747	0.5
Property agency services	56,773	0.8	44,066	0.4	76,238	10,951	0.6
Property operation services	901,912	13.1	2,892,655	29.5	3,212,119	461,392	23.4
Hotel services	121,233	1.8	120,764	1.2	109,887	15,784	0.8
Others	674,163	9.8	698,345	7.1	713,019	102,419	5.2
Total	6,884,964	100.0	9,802,167	100.0	13,744,216	1,974,233	100.00

Other Income, Gains and Losses

Other income, gains and losses include bank interest income, change in fair value of option derivatives, investment income from land development, change in fair value of financial assets designated as at FVTPL, unconditional government grants, net exchange loss and others. In 2019, we incurred other gains of RMB1,189.4 million (US\$170.8 million), which was mainly attributable to disposal of an associate for the current interim period.

Changes in Fair Value of Investment Properties

Investment properties are properties held to earn rental income and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Property that is being constructed or developed for future use as an investment property is classified as an investment property. We have concluded the fair value of the investment properties under development cannot be measured reasonably, therefore, our investment properties under development continue to be measured at cost until such time as fair value can be determined or construction is completed. Our investment properties are currently comprised primarily of office units, retail spaces and car parking spaces. Once an investment property is sold or if the investment property is permanently withdrawn from use and no future economic benefits are expected, gains or losses on disposals of such investment property are recognized as “Gain/loss on disposal of investment properties.”

Gains or losses arising from changes in the fair values of investment properties are included in our consolidated statements of comprehensive income in the period in which they arise. Investment properties are initially recognized at cost, subsequent to initial recognition, investment properties are stated on our consolidated statement of comprehensive income as non-current asset at fair value, which reflects market conditions as of the date of our consolidated statement of comprehensive income. The

valuation is determined by independent and qualified professionals and involves the exercise of professional judgment on the part of the valuation professionals and the use of certain assumptions, such as making reference to comparable sales evidence available in the market.

Selling and Distribution Expenses

Selling and distribution expenses include sales commissions, advertising and promotion expenses related to the sale of our properties and the promotion of our brand and services, which include advertisements on television and in newspapers, magazines, on billboards, promotional offers made directly to our customers and certain other promotional events.

Administrative Expenses

Administrative expenses include staff costs, office rental payments, depreciation and amortization, traveling and entertainment expenses, professional fees and general office expenses.

Finance Costs

Finance costs consist primarily of interest costs on borrowings net of capitalized finance costs. We capitalize a portion of our finance costs to “properties under development for sale,” “investment properties under development,” “construction in progress” and “land development expenditure” on our consolidated statements of financial position to the extent that such costs are directly attributable to the development of a project. Finance costs fluctuate from period to period due primarily to fluctuations in our level of outstanding indebtedness and the interest rates on such indebtedness. Since the development period for a property development does not necessarily coincide with the repayment period of the relevant loan, not all of the finance costs related to a property development can be capitalized. As a result, the period to period fluctuation of our finance costs is also attributable to the amount and timing of capitalization. See “– Critical Accounting Policies – Capitalized Finance Costs.”

Income Tax Expenses

Income tax expenses represent PRC enterprise income tax and LAT payable by our subsidiaries in China. For 2017, 2018 and 2019, our effective tax rate (income tax expenses divided by profit before tax) was 45.0%, 61.5% and 60.3%, respectively.

The PRC enterprise income tax has been calculated at the applicable tax rate on the assessable profits for each of 2017, 2018 and 2019. Under the EIT Law that became effective on January 1, 2008 and most recently amended on December 29, 2018, a uniform income tax rate of 25% was imposed on the taxable income of both domestic enterprises and foreign-invested enterprises, enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after implementation of the EIT Law. As a result of the EIT Law, the applicable enterprise income tax rate for our subsidiaries in Shenzhen and in other areas in China was 25% from 2013 onwards.

LAT expenses represent provisions for the estimated LAT payable in relation to our properties delivered during a period. Property developers in China that receive income from the sale or transfer of state-owned land use rights, buildings and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the “appreciated value of the property.” However, no LAT is payable for the sale of ordinary residential properties if the appreciation value does not exceed 20% of the “total deductible items,” as such term is defined in the relevant tax laws. Whether a property qualifies for the ordinary standard residential property exemption is determined by the local government taking into consideration the property’s plot ratio, aggregate GFA and sale price.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Critical Accounting Policies

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

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is net of estimated customer returns, rebates and other similar allowance.

Sales of properties

Revenue from sales of properties in the ordinary course of business is recognized when the respective properties have been completed and delivered to the buyers. Deposits and installments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

When the completed properties are sold in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred.

Agency fee, service income, management fee, parking fee and consultation fee

Agency fee, service income, management fee, parking fee and consultation fee are recognized when services are provided.

Contract revenue

Contract revenue from installation contract is recognized when the outcome of the contract can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from construction contracts is recognized on the percentage of completion method, measured by reference to the proportion that billings agreed with the customer to date relative to the estimated total revenue for each contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract cost incurred that it is probable to be recoverable.

Hotel operation

Revenue from hotel accommodation, hotel management and related services, food and beverage sales and other ancillary services is recognized when the services are rendered.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the periods in which they become receivable.

Properties for Sale

Completed properties and properties under development for sale in the ordinary course of business are included in current assets and stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalized in accordance with the Group's accounting policy, and other attributable expenses. Cost of each unit in each phase of development is determined using the weighted average method.

Net realizable value represents the estimated selling price for properties for sale less all estimated costs of completion and costs necessary to make the sale.

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

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including properties under construction for such purposes.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the periods in which they arise.

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

Property that is being constructed or developed for future use as investment property is classified as investment property. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be determined or construction is completed.

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

Borrowing Costs

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 recognized in profit or loss in the periods in which they are incurred.

Results of Operations

The following table sets forth our results of operations for the periods indicated which are derived from the consolidated statements of comprehensive income included in this offering memorandum. Our historical results presented below are not necessarily indicative of future results.

	For the year ended December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Revenue	9,782,568	13,986,133	19,081,577	2,740,897
Cost of sales and services	(6,884,964)	(9,802,167)	(13,744,216)	(1,974,233)
Gross profit	2,897,604	4,183,966	5,337,361	766,664
Other income, gains and losses	1,009,049	711,522	1,329,347	190,949
Impairment losses net of reversal	(62,012)	(82,424)	(139,628)	(20,056)
Change in fair value of investment properties	966,184	136,802	(6,165)	(886)
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	118,589	82,409	(1,110)	(159)
Selling and distribution expenses	(417,872)	(439,032)	(469,538)	(67,445)
Administrative expenses	(1,167,835)	(1,389,214)	(1,361,840)	(195,616)
Finance costs	(1,279,587)	(1,464,674)	(1,831,761)	(263,116)
Share of results of associates	8,843	34,880	10,738	1,542
Share of results of joint ventures	167,670	(11,140)	(29,626)	(4,256)
Gain on disposal of subsidiaries	326,285	1,273,824	944,903	135,727
Profit before taxation	2,566,918	3,036,919	3,782,681	543,348
Income tax expense	(1,157,207)	(1,868,735)	(2,280,776)	(327,613)
Profit for the year/period	<u>1,409,711</u>	<u>1,168,184</u>	<u>1,501,905</u>	<u>215,735</u>
Profit for the year attributable to:				
Owners of the Company	1,154,316	728,339	873,644	125,491
An owner of perpetual capital instrument	—	—	—	—
Other non-controlling interests	255,395	439,845	628,261	90,244
	<u>1,409,711</u>	<u>1,168,184</u>	<u>1,501,905</u>	<u>215,735</u>

Comparison of the Year Ended December 31, 2019 to the Year Ended December 31, 2018

Revenue. Our revenue increased by 36.4% to RMB19,081.6 million (US\$2,740.9 million) for the year ended December 31, 2019 from RMB13,986.1 million for the year ended December 31, 2018. This was primarily attributed to an increase in revenue generated from property development.

The below table and discussion set forth the revenue attributable to each of our business segments for the years indicated:

	For the year ended December 31,				
	2018		2019		
	(RMB)	(%)	(RMB)	(US\$)	(%)
	(unaudited)		(unaudited)		
	(in thousands, except percentages)		(in thousands, except percentages)		
Property development	8,554,508	61.2	13,226,346	1,899,846	69.3
Property investment	252,509	1.8	199,778	28,696	1.0
Property agency services	129,666	0.9	94,332	13,550	0.5
Property operation services	4,157,566	29.7	4,665,570	670,167	24.5
Hotel services	135,700	1.0	123,478	17,737	0.6
Others	756,184	5.4	772,073	110,901	4.0
Total	<u>13,986,133</u>	<u>100.0</u>	<u>19,081,577</u>	<u>2,740,897</u>	<u>100.0</u>

Property development. Revenue derived from property development increased by 54.6% to RMB13,226.3 million (US\$1,899.8 million) for the year ended December 31, 2019 from RMB8,554.5 million for the year ended December 31, 2018. The increase was primarily due to the property projects located in Chengdu and the Yangtze River Delta Area were completed and delivered during the year.

Property investment. Revenue derived from property investment decreased by 20.9% to RMB199.8 million (US\$28.7 million) for the year ended December 31, 2019 from RMB252.5 million for the year ended December 31, 2018. The decrease was primarily due to less area of investment properties leased externally.

Property agency services. Revenue derived from property agency services decreased by 27.3% to RMB94.3 million (US\$13.6 million) for the year ended December 31, 2019 from RMB129.7 million for the year ended December 31, 2018. The decrease was primarily due to the slowdown of second-hand house transactions.

Property operation services. Revenue derived from property operation services increased by 12.2% to RMB4,665.6 million (US\$670.2 million) for the year ended December 31, 2019 from RMB4,157.6 million for the year ended December 31, 2018. The increase was primarily due to the increase in both the managed GFA by our Group and the expansion of value-added services provided in 2019.

Hotel operations. Revenue derived from hotel services decreased by 9.0% to RMB123.5 million (US\$17.7 million) for the year ended December 31, 2019 from RMB135.7 million for the year ended December 31, 2018.

Other services. Revenue derived from other services increased by 2.1% to RMB772.1 million (US\$110.9 million) for the year ended December 31, 2019 from RMB756.2 million for the year ended December 31, 2018.

Cost of Sales. Our cost of sales increased by 40.2% to RMB13,744.2 million (US\$1,974.2 million) for the year ended December 31, 2019 from RMB9,802.2 million for the year ended December 31, 2018. This increase was in line with the growth of our revenue.

Gross Profit. Our gross profit increased by 27.6% to RMB 5,337.4 million (US\$766.7 million) in the year period ended December 31, 2019 from RMB4,184.0 million in the year period ended December 31, 2018. The profit margin was approximately 29.9% for the year ended December 31, 2019 as compared to 29.6% for the corresponding period in 2018. Gross profit margin was generally consistent with that over the previous year due to steady development of the business.

Other income, gains and losses. We had net other gains of RMB1,329.3 million (US\$190.9 million) for the year ended December 31, 2019, as compared to net other gains of RMB711.5 million for the year ended December 31, 2018, which was due to the remeasurement gains of the interests in joint ventures arising from disposal of partial equity interests in subsidiaries resulting in loss of control.

Change in fair value of investment properties. Our gain on fair value changes of investment properties decreased by RMB143.0 million to a loss of RMB6.2 million (US\$0.9 million) for the year ended December 31, 2019 from a gain of RMB136.8 million for the year ended December 31, 2018. The change was mainly due to the decrease in net change in fair value recognized from completed investment properties.

Recognition of change in fair in fair value of completed properties for sale upon transfer to investment properties. Our recognition of change in fair value of completed properties for sale upon transfer to investment properties decreased by RMB83.5 million to a loss of RMB1.1 million (US\$0.2 million) for the year ended December 31, 2019 from a gain of RMB82.4 million for the year ended December 31, 2018. The decrease was mainly due to the changes in the fair market value of investment properties.

Selling and distribution expenses. Our selling and distribution expenses increased by 6.9% to RMB469.5 million (US\$67.4 million) for the year ended December 31, 2019 from RMB439.0 million for the year ended December 31, 2018. The increase was due to the increase in advertising expenses for the property projects under pre-sale stage.

Administrative expenses. Our administrative expenses remain stable in RMB1,361.8 million (US\$195.6 million) for the year ended December 31, 2019 compared to RMB1,389.2 million for the year ended December 31, 2018.

Finance costs. Our finance costs increased by 25.1% to RMB1,831.8 million (US\$263.1 million) for the year ended December 31, 2019 from RMB1,464.7 million for the year ended December 31, 2018. The increase in finance costs was mainly due to the increase in average financing costs.

Share of results of associates. We recorded share of gains of associates of RMB10.7 million (US\$1.5 million) for the year ended December 31, 2019 and share of gains of associates of RMB34.9 million for the year ended December 31, 2018.

Share of results of joint ventures. We recorded share of losses of joint ventures of RMB29.6 million (US\$4.3 million) for the year ended December 31, 2019 and share of losses of associate of RMB11.1 million for the year ended December 31, 2018.

Gains on disposal of subsidiaries. Our gains on disposal of subsidiaries decreased by 25.8% to RMB944.9 million (US\$135.7 million) for the year ended December 31, 2019 from RMB1,273.8 million for the year ended December 31, 2018.

Income tax expenses. Our income tax expenses increased by 22.0% to RMB2,280.8 million (US\$272.2 million) for the year ended December 31, 2019 from RMB1,868.7 million for the year ended December 31, 2018.

Profit for the year. Our profit for the period increased by 28.6% to RMB1,501.9 million (US\$215.7 million) for the year ended December 31, 2019 from RMB1,168.2 million for the year ended December 31, 2018.

Profit attributable to the owners of the Company. Our profit attributable to the owners of the Company increased by 20.0% to RMB873.6 million (US\$106.1 million) for the year ended December 31, 2019 from RMB728.3 million for the year ended December 31, 2018.

Profit attributable to other non-controlling interest. Our profit attributable to other non-controlling interests increased by 42.8% to RMB628.3 million (US\$90.2 million) for the year ended December 31, 2019 from RMB439.8 million for the year ended December 31, 2018.

Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017

Revenue. Our revenue increased by 43.0% to RMB13,986.1 million (US\$2,037.3 million) for the year ended December 31, 2018 from RMB9,782.6 million for the year ended December 31, 2017. This was primarily attributed to an increase in the number of newly-recognized properties brought forward to the current period.

The below table and discussion set forth the revenue attributable to each of our business segments for the years indicated:

	For the year ended December 31,			
	2017		2018	
	(RMB)	(%)	(RMB)	%
	(unaudited)		(unaudited)	
	(in thousands, except percentages)			
Property development	6,598,470	67.5	8,554,508	61.2
Property investment	243,187	2.5	252,509	1.8
Property agency services	57,967	0.6	129,666	0.9
Property operation services	2,015,378	20.6	4,157,566	29.7
Hotel operations	134,033	1.4	135,700	1.0
Others	733,533	7.5	756,184	5.4
Total	<u>9,782,568</u>	<u>100.0</u>	<u>13,986,133</u>	<u>100.0</u>

Property development. Revenue derived from property development increased by 29.6% to RMB8,554.5 million for the year ended December 31, 2018 from RMB6,598.5 million for the year ended December 31, 2017. The increase was primarily due to the newly-recognized properties in Chengdu and Huizhou brought forward to this year.

Property investment. Revenue derived from property investment increased by 3.8% to RMB252.5 million (US\$36.8 million) for the year ended December 31, 2018 from RMB243.2 million for the year ended December 31, 2017. The increase was primarily due to additional area of investment properties leased externally.

Property agency services. Revenue derived from property agency services increased by 123.6% to RMB129.7 million for the year ended December 31, 2018 from RMB58.0 million for the year ended December 31, 2017. The increase was primarily due to the expansion of agency services in relation to carparks.

Property operation services. Revenue derived from property operation services increased by 106.3% to RMB4,157.6 million for the year ended December 31, 2018 from RMB2,015.4 million for the year ended December 31, 2017. The increase was primarily due to the increase in both the GFA of the properties under the Group's management and the scope of value-added services provided in 2018.

Hotel operations. Revenue derived from hotel services increased by 1.3% to RMB135.7 million for the year ended December 31, 2018 from RMB134.0 million for the year ended December 31, 2017.

Other services. Revenue derived from other services increased by 3.1% to RMB756.2 million for the year ended December 31, 2018 from RMB733.5 million for the year ended December 31, 2017. The increase was primarily attributable to revenue from Morning Star Group Limited and ASIMCO III Investment Limited, which we acquired in end December 2015 and June 2016, respectively.

Cost of Sales. Our cost of sales increased by 42.4% to RMB9,802.2 million for the year ended December 31, 2018 from RMB6,885.0 million for the year ended December 31, 2017. This increase was in line with the growth of our revenue.

Gross Profit. Our gross profit increased by 44.4% to RMB4,184.0 million in the year period ended December 31, 2018 from RMB2,897.6 million in the year period ended December 31, 2017. The profit margin was approximately 29.9% for the year ended December 31, 2018 as compared to 29.6% for the corresponding period in 2017. Gross profit margin was generally consistent with that over the previous year due to steady development of the business.

Other income, gains and losses. We had net other gains of RMB711.5 million for the year ended December 31, 2018, as compared to net other gains of RMB1,009.0 million for the year ended December 31, 2017, which was due to an exchange loss of RMB741 million (the corresponding period in 2017: an exchange gain of RMB599 million) and change in fair value of financial assets at FVTPL of RMB939 million.

Change in fair value of investment properties. Our gain on fair value changes of investment properties decreased by RMB829.4 million to a gain of RMB136.8 million for the year ended December 31, 2018 from a gain of RMB966.2 million for the year ended December 31, 2017. The change was mainly due to the sale of investment properties during the period.

Recognition of change in fair in fair value of completed properties for sale upon transfer to investment properties. Our recognition of change in fair value of completed properties for sale upon transfer to investment properties decreased by 30.5% to RMB82.4 million for the year ended December 31, 2018 from RMB118.6 million for the year ended December 31, 2017. The decrease was mainly due to a decrease in the fair value of the existing investment properties and the reclassification of certain properties held for sale to investment properties.

Selling and distribution expenses. Our selling and distribution expenses increased by 5.0% to RMB439.0 million for the year ended December 31, 2018 from RMB417.9 million for the year ended December 31, 2017. The increase was due to the increase in physical-form advertising, and other expenses.

Administrative expenses. Our administrative expenses increased by 19.0% to RMB1,389.2 million for the year ended December 31, 2018 from RMB1,167.8 million for the year ended December 31, 2017. The increase was primarily due to the fact that the Group required more staff to support its business development in expanding its operation scale during its community-oriented transformation.

Finance costs. Our finance costs increased by 14.5% to RMB1,464.7 million for the year ended December 31, 2018 from RMB1,279.6 million for the year ended December 31, 2017. The increase in finance costs was mainly due to the increase in average annual balance of interest-bearing liabilities.

Share of results of associates. We recorded share of gains of associates of RMB34.9 million for the year ended December 31, 2018 and share of gains of associates of RMB8.8 million for the year ended December 31, 2017.

Share of results of joint ventures. We recorded share of losses of joint ventures of RMB11.1 million for the year ended December 31, 2018 and share of gains of associate of RMB167.7 million for the year ended December 31, 2017.

Gains on disposal of subsidiaries. Our gains on disposal of subsidiaries increased by 290.4% to RMB1,273.8 million for the year ended December 31, 2018 from RMB326.3 million for the year ended December 31, 2017.

Income tax expenses. Our income tax expenses increased by 61.5% to RMB1,868.7 million for the year ended December 31, 2018 from RMB1,157.2 million for the year ended December 31, 2017.

Profit for the year. Our profit for the period decreased by 17.1% to RMB1,168.2 million for the year ended December 31, 2018 from RMB1,409.7 million for the year ended December 31, 2017.

Profit attributable to the owners of the Company. Out profit attributable to the owners of the Company decreased by 36.9% to RMB728.3 million for the year ended December 31, 2018 from RMB81,154.3 million for the year ended December 31, 2017.

Profit attributable to other non-controlling interest. Our profit attributable to other non-controlling interests increased by 72.2% to RMB439.8 million for the year ended December 31, 2018 from RMB255.4 million for the year ended December 31, 2017.

Liquidity and Capital Resources

Cash Flows

The following table sets forth our net cash flow for the periods indicated:

	For the year ended December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
	(in thousands)			
Net cash from (used in) operating activities.	681,655	499,415	(1,316,933)	(189,166)
Net cash from (used in) investing activities.	(1,683,649)	2,026,966	(1,119,586)	(160,818)
Net cash from financing activities	6,362,888	9,331,489	(3,415,280)	(490,574)
Net increase in cash and cash equivalents	5,360,894	11,857,870	(5,851,799)	(840,558)
Cash and cash equivalents at end of year or period . .	14,335,075	26,222,584	20,379,733	2,927,365

Cash Flows from/used in Operating Activities

Our cash used in operating activities principally comprises amounts we pay for our property development activities, which are reflected on our consolidated statements of financial position as an increase in our properties for sales. Our cash provided by operating activities is generated principally from the proceeds from the sales of our properties, including pre-sales of properties under development, as well as commissions and fees received from our property agency services, property operation services and hotel services businesses.

In 2019, our net cash used in operating activities was RMB1,316.9 million (US\$189.2 million). Our net cash generated from operating activities in 2019 consisted primarily of cash generated from operations before movements in working capital of RMB4,013.1 million (US\$576.5 million) and an increase in working capital of RMB286.9 million (US\$41.2 million), which was partially offset by income tax paid of RMB2,002.7 million (US\$287.7 million) and interest paid of RMB3,614.3 million (US\$519.2 million). Working capital in 2019 increased by RMB286.9 million (US\$41.2 million), primarily due to an increase in contract liabilities of RMB5,304.5 million (US\$761.9 million), partially offset by an increase in properties for sale of RMB3,450.6 million (US\$605.1 million) and decrease in trade and other payables of RMB1,331.3 million.

In 2018, our net cash from operating activities was RMB499.4 million. Our net cash generated from operating activities in 2018 consisted primarily of cash generated from operations before movements in working capital of RMB2,844.5 million and an increase in working capital of RMB1,142.9 million, which was partially offset by income tax paid of RMB619.5 million and interest paid of RMB2,868.5 million. Working capital in 2018 increased by RMB1,142.9 million, primarily due to an increase in contract liabilities of RMB5,526.2 million and an increase in trade and other payables of RMB3,169.9 million, partially offset by an increase in trade and other receivables of RMB4,458.4 million.

In 2017, our net cash from operating activities was RMB681.7 million. Our net cash generated from operating activities in 2017 consisted primarily of cash generated from operations before movements in working capital of RMB1,536.3 million and an increase in working capital of RMB1,820.0 million, which was partially offset by income tax paid of RMB540.2 million and interest paid of RMB2,134.5 million. Working capital in 2017 increased by RMB1,820.0 million, primarily due to an increase in deposits received for sale of properties of RMB2,227.0 million, an increase in trade and other payables of RMB1,316.6 million and a decrease in trade and other receivables of RMB1,035.4 million, partially offset by a decrease in properties for sale of RMB2,404.0 million.

Cash Flows Used in Investing Activities

In 2019, our net cash used in investing activities amounted to RMB1,119.6 million (US\$160.8 million). The primary factors affecting net cash used in investing activities in this period mainly included: placement of restricted/pledged bank deposits of RMB3,824.0 million (US\$549.3 million), advances to related parties of RMB1,790.9 million (US\$257.3 million), additions to investment properties of RMB795.4 million (US\$114.3 million) and deposits paid for potential acquisition of subsidiaries and investment in associates and joint ventures of RMB718.3 million (US\$103.2 million), partially offset by withdrawal of restricted/pledged bank deposits of RMB3,507.2 million (US\$503.8 million) and redemption of financial assets at FVTPL of RMB1,093.2 million (US\$157.0 million).

In 2018, our net cash from investing activities was RMB2,027.0 million. Cash from investing activities during the period mainly included: withdrawal of restricted/pledged bank deposits of RMB3,292.6 million. Disposal of partial interests in subsidiaries resulting in loss of control of RMB1,238.0 million, disposal of subsidiaries (net of cash and cash equivalent disposed of) of RMB1,025.7 million and repayment from non-controlling shareholders of the subsidiaries of the Company, partially offset by placement of restricted/pledged bank deposits of RMB3,533.9 million and settlement of consideration payables on acquisition subsidiaries of RMB1,724.5 million.

In 2017, our net cash used in investing activities amounted to RMB1,683.7 million. The primary factors affecting net cash used in investing activities in this period mainly included: additions to investment properties of RMB1,721.3 million, acquisition of assets and liabilities through acquisition of subsidiaries of RMB835.5 million, deposits paid for potential acquisitions of subsidiaries of RMB635.7 million and purchase of property, plant and equipment of RMB502.9 million, partially offset by proceeds from disposal of investment properties of RMB867.5 million and acquisition of business of RMB915.0 million.

Cash Flows from/Used in Financing Activities

In 2019, our net cash from financing activities amounted to RMB20,379.7 million (US\$2,927.4 million). The primary factors affecting net cash generated from financing activities in this period included: net proceeds from the issuance of senior notes and bonds of RMB7,443.3 million (US\$1,069.2

million) and net borrowings raised of RMB5,300.2 million (US\$761.3 million), partially offset by repayment of borrowings of RMB7,959.8 million (US\$1,143.4 million) and repayment of senior notes of RMB6,197.5 million (US\$890.2 million).

In the year ended December 31, 2018, our net cash from financing activities was RMB9,331.5 million. Cash from financing activities during the period mainly included: net proceeds from the issuance of senior notes and bonds of RMB9,505.7 million and net borrowings raised of RMB11,210.8 million, partially offset by repayment of borrowings of RMB5,786.7 million and repayment of senior notes of RMB4,404.3 million.

In 2017, our net cash from financing activities amounted to RMB6,362.9 million. The primary factors affecting net cash used in financing activities in this period included: net proceeds from the issuance of senior notes and bonds of RMB5,419.2 million, net borrowings raised of RMB7,216.0 million and deemed disposal of partial interests in subsidiaries without loss of control of RMB2,402.6 million, partially offset by repayment of borrowings of RMB3,401.0 million, redemption of senior notes of RMB2,140.3 million and repayment of senior notes of RMB1,454.2 million.

We resolved annual dividend of RMB5.0 cents per share amounting to RMB288,384,000 to be paid for the year ended December 31, 2019.

Capital Resources

Property developments require substantial capital investment for land acquisition and construction and may take months or years before positive cash flow can be generated. We principally fund our property developments from internal funds, borrowings from banks, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and proceeds from issuance of equity and debt securities, such as our IPO in November 2009, issuance of the 2010 Notes in May 2010, issuance of the 2012 Notes in September 2012, issuance of the May 2013 Notes in May 2013, issuance of the 2014 Notes in January 2014, issuance of the 2015 Notes in June 2015, issuance of the May 2016 Notes, issuance of the October 2016 Notes in 2016, issuance of the June 2017 Notes, issuance of the July 2017 Notes in 2017, the March 2018 Notes, the First December 2018 Notes and the Second December 2018 Notes in 2018 and the issuance of the March 2019 Notes, the April 2019 Notes in 2019 and the July 2019 Notes in 2019, the issuance of the January 2020 Notes in 2020, the June 2020 Notes in 2020 and the July 2020 Notes in 2020. Our financing methods may vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Bank Balances and Cash

As of December 31, 2017, 2018 and 2019, our bank balances and cash amounted to RMB14,335.1 million and RMB26,222.6 million and RMB20,379.7 million (US\$2,927.4 million), respectively.

Our bank balances and cash decreased by RMB5,842.9 million (US\$839.3 million) or 22.3%, from December 31, 2018 to December 31, 2019, primarily due to net cash inflow used in operating and investment activities.

Our bank balances and cash increased by RMB11,887.5 million or 82.9%, from December 31, 2017 to December 31, 2018, primarily due to net cash inflow from operating and financing activities.

Borrowings

Our borrowings primarily consist of loans from commercial banks and other financial institutions. As of December 31, 2019, we had an aggregate bank borrowings of RMB8,287.2 million (US\$1,190.4 million), which was denominated in Renminbi, U.S. dollars and Hong Kong dollars. Substantially all of

our borrowings are secured by land use rights and properties of our Group. We have, since December 31, 2019, entered into additional financing arrangements in the ordinary course of business to finance our property developments and for general corporate purposes.

Our borrowings have a range of maturities from less than one year to more than five years. As of December 31, 2019, the interest rate for our fixed rate borrowings is 2% to 13.5% per annum and our variable rate borrowings have variable interest rates at either the Hong Kong Interbank Offering Rate plus 2.0%, the London Interbank Offered Rate plus 2.0%, or the benchmark lending rate of the PBOC ranging from plus 4.35% to plus 4.90% per annum.

The following table sets forth the level of our borrowings and their respective maturity profiles as of the dates indicated.

	As of December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
	(unaudited)			
Bank loans	4,936,910	10,472,188	8,287,246	1,190,338
Other loans	4,926,735	8,683,366	5,698,116	818,483
	<u>9,863,645</u>	<u>19,155,554</u>	<u>13,985,362</u>	<u>2,008,872</u>
Secured	6,215,822	16,161,519	12,720,077	1,827,125
Unsecured	3,647,823	2,994,035	1,265,285	181,747
	<u>9,863,645</u>	<u>19,155,554</u>	<u>13,985,362</u>	<u>2,008,872</u>
Carrying amount repayable:				
Within one year	3,022,026	7,959,810	6,430,202	923,641
More than one year, but not exceeding two years . .	3,951,279	3,528,383	3,954,694	568,056
More than two years, but not exceeding five years .	2,766,372	5,777,361	3,600,466	517,715
More than five years	123,968	1,890,000	–	–
	<u>9,863,645</u>	<u>19,155,554</u>	<u>13,985,362</u>	<u>2,008,872</u>
Less: Amounts due within one year shown under current liabilities	<u>(3,022,026)</u>	<u>7,959,810</u>	<u>(6,430,202)</u>	<u>(923,641)</u>
Total	<u><u>6,841,619</u></u>	<u><u>19,155,554</u></u>	<u><u>7,555,160</u></u>	<u><u>1,085,231</u></u>

Notes:

The new borrowings raised are denominated in Renminbi, United State Dollar and Hong Kong Dollar and carry interest ranging from 2.0% to 12.80% per annum.

January 2013 Notes

On January 22, 2013, we issued an aggregate principal amount of US\$250 million of the January 2013 Notes to refinance our existing indebtedness, finance our existing and new project development projects and for other general corporate purposes. As of the date of this offering memorandum, we redeemed the January 2013 Notes in full.

May 2016 Notes

On May 4, 2016, we issued an aggregate principal amount of RMB600 million of the 2016 Original Notes to refinance certain of our existing indebtedness. As of December 31, 2016, the entire principal amount of the 2016 Original Notes remained outstanding. On August 29, 2016, we issued the 2016 Additional Notes in the amount of RMB1.0 billion also to refinance certain of our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the May 2016 Notes remained outstanding.

October 2016 Notes

On October 4, 2016, we issued an aggregate principal amount of US\$400 million of the October 2016 Notes to refinance our existing indebtedness. On December 29, 2016, we issued the additional October 2016 Notes in the amount of US\$100 million also to refinance certain of our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the October 2016 Notes remained outstanding.

July 2017 Notes

On July 5, 2017, we issued an aggregate principal amount of US\$300 million of the July 2017 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the July 2017 Notes remained outstanding.

February 2018 Notes

On February 14, 2018, we issued an aggregate principal amount of US\$300 million of the February 2018 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the February 2018 Notes has been redeemed.

March 2018 Notes

On March 8, 2018, March 16, 2018 and May 7, 2018, we issued a total aggregate principal amount of US\$600 million of the March 2018 Notes to refinance our existing indebtedness. In January 2020, we offered to repurchase for cash part of the March 2018 Notes. Upon the completion of the Tender Offer on January 21, 2020 and up to the date of this offering memorandum, the March 2018 Notes in the aggregate principal amount of US\$520,001,000 remains outstanding.

June 2018 Notes

On June 5, 2018, we issued a total aggregate principal amount of US\$100 million of the June 2018 Notes to refinance our existing indebtedness. On December 10, 2018, we commenced an exchange offer of the June 2018 Notes for the First December 2018 Notes. On December 17, 2018, an aggregate principal amount of US\$100,000,000 June 2018 Notes has been exchanged to the First December 2018 Notes. As of the date of this offering memorandum, the entire principal amount of the First December 2018 Notes remained outstanding.

July 2018 Notes

On July 16, 2018, we issued a total aggregate principal amount of US\$140 million of the July 2018 Notes to refinance our existing indebtedness. As of December 31, 2018, the entire principal amount of the July 2018 Notes remained outstanding. As of the date of this offering memorandum, the July 2018 Notes were redeemed upon maturity.

First December 2018 Notes

On December 17, 2018, we issued a total aggregate principal amount of US\$100 million of the First December 2018 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the First December 2018 Notes remained outstanding.

Second December 2018 Notes

On December 18, 2018, December 28, 2018 and January 31, 2019, we issued an aggregate principal amount of US\$300 million of the Second December 2018 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the Second December 2018 Notes remained outstanding.

March 2019 Notes

On March 11, 2019, we issued a total aggregate principal amount of RMB1,000 million of the March 2019 Notes to refinance certain of our indebtedness. As of the date of this offering memorandum, the entire principal amount of the March 2019 Notes remained outstanding.

April 2019 Notes

On April 17, 2019, we issued a total aggregate principal amounts of US\$200 million of the April 2019 Notes to refinance certain of our indebtedness. As of the date of this offering memorandum, the entire principal amount of the April 2019 Notes remained outstanding.

July 2019 Notes

On July 18, 2019 and November 18, 2019, we issued a total aggregate principal amount of US\$350 million of the July 2019 Notes to refinance certain of our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the July 2019 Notes remained outstanding.

January 2020 Notes

On January 9, 2020, we issued a total aggregate principal amount of US\$450 million of the January 2020 Notes to refinance certain of our existing indebtedness and the Tender Offer. As of the date of this offering memorandum, the entire principal amount of the January 2020 Notes remained outstanding.

June 2020 Notes

On June 1, 2020, we issued a total aggregate principal amount of US\$300 million of the June 2020 Notes to refinance certain of our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the June 2020 Notes remained outstanding.

July 2020 Notes

On July 28, 2020, we issued a total aggregate principal amount of US\$350 million of the July 2020 Notes to refinance certain of our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the July 2020 Notes remained outstanding.

2015 Onshore Bonds

On September 18, 2015, Fantasia Group (China) Co., Limited (花樣年集團(中國)有限公司)(“Fantasia Group China”), a wholly owned subsidiary of the Company, issued public domestic corporate bonds in aggregate amount of RMB2 billion with an interest rate of 6.95% to reduce our capital costs and foreign exchange risk and lay a solid foundation for the expansion of our business scale and sustainable development. As of the date of this offering memorandum, the entire principal amount of the 2015 Onshore Bonds remained outstanding.

2016 Onshore Bonds

In 2016, we issued seven tranches of domestic corporate bonds through our subsidiaries. On January 4, 2016, Fantasia Group China issued public domestic corporate bonds of RMB1.1 billion with an interest rate of 7.29% per annum which will mature on December 31, 2020. On January 29, 2016, Colour Life, a non-wholly owned subsidiary of the Company which is an Unrestricted Subsidiary under our 2012 Notes, January 2013 Notes, 2015 Notes, May 2016 Notes, October 2016 Notes and the Notes, issued non-public domestic corporate bonds of RMB100 million with an interest rate of 6.7% per annum which matured on January 28, 2019. On May 19, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB500 million with an interest rate of 7.50% per annum which matured on May 19, 2019. On July 15, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB331 million with an interest rate of 6.80% per annum which matured on July 15, 2018. On August 17, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB1.3 billion with an interest rate of 7.20% per annum which matured on August 17, 2018. On August 23, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB300 million with an interest rate of 7.30% per annum which matured on August 23, 2018. On September 7, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB569 million with an interest rate of 6.60% per annum which matured on September 7, 2018.

As of December 31, 2019, the RMB1.1 billion of the seven tranches of the 2016 Onshore Bonds remained outstanding.

2018 Corporate Bonds

On December 17, 2018, we issued the first tranche of the 2018 Corporate Bonds through one of our wholly-owned subsidiary in an aggregate principal amount of RMB1 billion at a coupon rate of 7.50% for a term of three years, with the option to adjust the coupon rate. The investors have the option to sell back the 2018 Corporate Bonds at the end of the second year. As of the date of this offering memorandum, the entire principal amount of the 2018 Corporate Bonds remained outstanding.

2019 Onshore Bonds

On July 3, 2019, we issued the first tranche of the 2019 Onshore Bonds through one of our wholly owned subsidiary in aggregate amount of RMB800 million at a coupon rate of 8.2% per annum for a term of three years, with the option to adjust the coupon rate and a sell-back option for the investors at the end of the second year. On November 27, 2019, we issued the second tranche of the 2019 Onshore Bonds in an aggregate amount of RMB730 million and a coupon rate of 7.8% per annum for a term of three years with the option to adjust the coupon rate and a sell-back option for the investors at the end of the second year.

Assets Backed Securities

In August 2016, Shenzhen Colour Life, our non-wholly owned subsidiary and an unrestricted subsidiary under our senior notes, issued assets backed securities (“ABS”) under securitization arrangements collateralized by the future cash inflows relating to certain trade receivables for the payments of property management fee. The ABS were issued at a discount of 5% with aggregate nominal value of RMB300 million and with carry interests ranging from 4.5% to 6.1% per annum. The principal and interest are payable quarterly and with maturity from November 2016 to August 2021. The effective interest rates range from 6.9% to 8.3% per annum. As of the date of the memorandum, the ABS remained outstanding.

Commitments

As of December 31, 2019, our contractual obligations in connection with our property development activities, other than loans and borrowings, amounted to RMB13,792 million (US\$1,981.1 million), primarily arising from committed payment for properties for sale, investment properties, acquisition of subsidiaries and capital expenditure. The following table sets forth our contractual obligations, other than loans and borrowings, as of the dates indicated:

	As of December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Operating lease commitments:				
Within one year.	43,221	22,431	N/A	N/A
In the second to the fifth year inclusive.	169,698	79,315	N/A	N/A
After the fifth year.	375,614	69,215	N/A	N/A
	<u>588,533</u>	<u>170,961</u>	<u>N/A</u>	<u>N/A</u>
Other commitments:				
Construction commitments in respect of properties for sale contracted for but not provided in the condensed consolidated financial statements	2,417,987	9,117,151	12,506,925	1,796,507
Construction commitments in respect of investment properties contracted for but not provided in the condensed consolidated financial statements	254,390	1,804,001	1,284,716	184,538
Consideration commitments in respect of acquisition of subsidiaries contracted for but not provided in the condensed consolidated financial statements	870,720	61,106	34,302	4,927
Consideration commitments in respect of acquisition of subsidiaries authorised but not yet contracted	-	-	-	-
Consideration commitments in respect of capital expenditure in respect of the acquisition of property, plant and equipment authorised but not yet contracted	-	-	-	-
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statement.	23,066	29,203	26,672	3,831
	<u>3,566,163</u>	<u>11,011,461</u>	<u>1,345,690</u>	<u>2,208,099</u>

Contingent Liabilities

As of December 31, 2019, we provided guarantees to PRC banks for loans with an aggregate principal amount of RMB12,167 million (US\$1,748 million), in respect of mortgages provided by the banks to purchasers of the properties we developed and sold. Our guarantees are issued from the dates of grant of the relevant mortgages and released upon issuance of property ownership certificates or after the full repayment of the underlying mortgages by the purchasers.

Pursuant to the terms of the guarantees, if there is default of the mortgage payments by purchasers of the properties, we are responsible to repay the outstanding mortgage loans, together with accrued interests thereon and any penalty owed by the purchasers in default to banks. We are entitled to take over the legal title of the related properties. The guarantee period commences from the date of grant of the relevant mortgage loan and ends after the relevant purchaser obtains the individual property ownership certificate.

Off-balance Sheet Commitments and Arrangements

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

Market Risks

We are exposed to various types of market risks in the normal course of business.

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. Such purchase costs are generally accounted for as part of contractors' fees pursuant to our arrangements with the relevant contractors. Rising prices for construction materials will therefore affect our construction costs in the form of increased fees payable to our contractors. As a result, fluctuations in the prices of our construction materials could have a significant impact on our results of operations.

Interest Rate Risk

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

An increase in interest rates may also adversely affect our prospective purchasers' ability to obtain financing and depress overall housing demand. Higher interest rates may adversely affect our revenue, gross profits and profits. The PBOC benchmark one-year lending rates in China (which directly affect the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2017, 2018 and 2019 were 4.35%, 4.35% and 4.35%, respectively.

Foreign Exchange Rate Risk

We conduct our business exclusively in Renminbi. The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar. Fluctuations in the value of Renminbi to the U.S. dollar may adversely affect our cash flows, revenue, earnings and financial position. For example, if the value of Renminbi appreciates, we would record foreign exchange losses on bank balances and other assets we maintain in non-Renminbi currencies. See "Risk Factors – Risks Relating to the PRC – Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment." We currently do not hedge our foreign exchange risk but may do so in the future.

Non-GAAP Financial Measures

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

- fair value change of investment properties;
- recognition of change in fair value of completed properties for sales upon transfer to investment properties;
- impairment loss recognized in respect of goodwill;
- interest income/expense (including those interest expense previously capitalized as assets and currently released to cost of sales and services in the consolidated statement of profit or loss and other comprehensive income);
- amortization of intangible assets;
- non-operating income/expense;
- 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 for the year under HKFRS to our definition of EBITDA for the years indicated.

	For the year ended December 31,			
	2017	2018	2019	
	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)
	(in thousands)			
Profit for the year/period	1,409,711	1,168,184	1,501,905	215,735
Adjustments:				
Gain on fair value changes of investment properties . .	(966,184)	(136,802)	6,165	886
Recognition of change in fair value of completed properties for sales upon transfer to investment properties	(118,589)	(82,409)	1,110	159
Change in fair value of financial assets designated as at FVTPL	(4,457)	(939,273)	(385,958)	(55,439)
Fair value change on hedging instruments	–	–	31,902	4,582
Impairment loss recognized in respect of goodwill . .	–	–	10,000	1,436
Finance cost – net	2,213,649	3,628,043	4,755,368	683,066
<i>Interest expenses</i>	1,279,587	1,464,674	1,831,761	263,116
<i>Interest income</i>	(88,631)	(140,257)	(121,816)	(17,498)
<i>Finance costs in cost of sales</i>	1,022,693	2,303,626	3,045,423	437,448
Share-based payments	47,216	17,218	19,871	2,854
Income tax expense	1,157,207	1,868,735	2,280,776	327,613
Depreciation expenses	176,906	237,973	323,330	46,443
Amortization expenses	56,189	153,596	143,043	20,547
EBITDA	3,971,648	5,915,265	8,687,512	1,247,883
EBITDA margin	41%	42%	46%	46%

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

INDUSTRY OVERVIEW

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

The Economy of China

Overview

The economy of China has grown significantly since the PRC government introduced economic reforms in the late 1970's. China's accession to the WTO in 2001 has further accelerated the reform of the PRC economy. China's nominal GDP has increased from approximately RMB31,924.5 billion in 2008 to approximately RMB99,086.5 billion in 2019 at a CAGR of approximately 10.8%.

The Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region are four of the most economically prosperous and vibrant regions in China. The table below sets forth the GDP data for China and the aforementioned four regions for the years indicated:

	Nominal GDP (in RMB billions)												08-19 CAGR
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
PRC	31,924.5	34,851.8	41,211.9	48,794.0	53,858.0	59,269.3	64,356.3	68,885.8	74,639.5	83,203.6	91,928.1	99,086.5	10.8%
Chengdu-Chongqing Economic Zone	969.5	1,103.3	1,347.7	1,696.2	1,954.9	2,189.2	2,431.9	2,652.1	2,972.9	N/A	N/A	N/A	N/A
Pearl River Delta region	2,994.6	3,214.7	3,767.3	4,372.1	4,778.0	5,306.0	5,765.0	6,226.8	6,790.5	N/A	N/A	N/A	N/A
Yangtze River Delta region.	6,651.5	7,249.4	8,631.4	10,062.5	10,890.5	11,932.8	12,882.9	13,796.8	15,003.7	N/A	N/A	N/A	N/A
Beijing-Tianjin metropolitan region	1,783.4	1,967.5	2,333.8	2,755.9	3,077.3	3,424.3	3,705.8	3,950.7	4,278.5	N/A	N/A	N/A	N/A

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

The Property Market In China

Overview

We believe the economic growth of China, the increase in disposable income, the emergence of the mortgage lending market and the increase in the urbanization rate, are key factors in sustaining the growth of China's property market. Government housing reforms continue to encourage private ownership and it is expected that an increasing proportion of urban residents who will own private properties will continue to increase over the coming years in the near future. The table below sets forth selected figures showing China's urbanization rate and the increase in disposable income levels of the urban population in China for the periods indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	08-19 CAGR
Urban population (in millions)	624.0	645.1	669.8	690.8	711.8	731.1	749.2	771.2	793.0	813.5	831.4	848.4	2.8%
Total population (in millions)	1,328.0	1,334.5	1,340.9	1,347.4	1,354.0	1,360.7	1,367.8	1,374.6	1,382.7	1,390.1	1,395.4	1,400.1	0.5%
Urbanization rate (%)	47.0%	48.3%	49.9%	51.3%	52.6%	53.7%	54.8%	56.1%	57.3%	58.5%	59.6%	60.6%	2.3%
Annual disposable income per capital of urban households (in RMB)	15,549.4	16,900.5	18,779.1	21,426.9	24,126.7	26,467.0	28,843.9	31,194.8	33,616.2	36,396.2	39,250.8	42,359.0	9.5%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

Pearl River Delta region is the earliest area in China that has experienced real estate marketization. As China's economy continues to develop and mature, there was an increasing shift in real estate activities from the southern part of China to the north. As a result, the Yangtze River Delta region and Beijing-Tianjin metropolitan region has joined the Pearl River Delta region to form three of the most prosperous zones in China. Due to various factors that include varying regional economic development level, city development characteristics and maturity of the different real estate markets, the property markets in the PRC possesses distinct regional differences. However, major cities in the three traditional economic zones of the Yangtze River Delta region, the Pearl River Delta region and the Beijing-Tianjin metropolitan region are still recognized as leading cities in the real estate market in China. The historical and recent development and trend in the real estate market in China has also shown an increase of activities from the eastern part of China to the west and from the coastal regions to the inland regions. Such trend, along with the implementation of the Western Development Policy by the PRC government to promote the development of China's western region, the Chengdu-Chongqing Economic Zone has in recent years gradually attracted significant investment and has become the business hub of western China.

The table below sets forth the property development investment for China and the aforementioned four regions for the years indicated. China's property development investment has increased from approximately RMB3,120.3 billion in 2008 to approximately RMB13,219.4 billion in 2019 at a CAGR of approximately 14.0%.

2. According to the Notice on Issuance of Provisions of Distinguish Standards for Small and Medium-Enterprises (關於印發中小企業劃型標準規定的通知) issued by the Ministry of Industry and Information Technology, NDRC, MOF and National Bureau of Statistics of China, small and medium-enterprises are defined based on the number of employees, revenues and the total assets value of such enterprises.
3. According to the section entitled "Description" in 2011 Statistic Yearbook of Small and Medium Enterprises, "above-scale enterprises" refers to all of the state-owned enterprises and the non-state-owned enterprises with annual revenue of over RMB5.0 million.

Property Development Investment

	Investment in properties (in RMB billions)												08-19 CAGR
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
PRC	3,120.3	3,624.2	4,825.9	6,179.7	7,180.4	8,601.3	9,503.6	9,597.9	10,258.1	10,979.9	12,026.4	13,219.4	14.0%
Chengdu-Chongqing													
Economic Zone	190.4	218.4	289.9	361.1	439.8	512.4	584.6	618.7	636.7	N/A	N/A	N/A	N/A
Pearl River Delta region	256.6	258.3	311.9	402.3	448.4	536.3	629.4	707.6	N/A	N/A	N/A	N/A	N/A
Yangtze River Delta region.	669.5	705.7	930.5	1,187.6	1,381.4	1,627.7	1,870.9	1,873.5	2,013.5	N/A	N/A	N/A	N/A
Beijing-Tianjin metropolitan region	256.2	307.3	376.8	411.7	441.3	496.4	541.5	604.9	630.1	N/A	N/A	N/A	N/A

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

Property Price and Supply

The average price per square meter for the property market in China was approximately RMB9,310.3 in 2019, compared to approximately RMB3,800.0 in 2008. Supply of properties in China also increased from approximately 665.4 million square meters in 2008 to approximately 959.4 million square meters in 2019.

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	08-19 CAGR
Total GFA completed													
(in million square meters) . . .	665.4	726.8	787.4	926.2	994.2	1,014.3	1,074.6	1,000.4	1,061.3	1,014.9	935.5	959.4	3.4%
Total GFA sold													
(in million square meters) . . .	659.7	947.6	1,047.6	1,093.7	1,113.0	1,305.5	1,206.5	1,284.9	1,573.5	1,694.1	1,716.5	1,715.6	9.1%
GFA of residential properties sold													
(in million square meters) . . .	592.8	861.8	933.8	965.3	984.7	1,157.2	1,051.9	1,124.1	1,375.4	1,447.9	1,479.3	1,501.4	8.8%
GFA of office buildings sold													
(in million square meters) . . .	11.6	15.4	18.9	20.0	22.5	28.8	25.1	29.1	38.3	47.6	43.6	37.2	11.2%
Average price of properties													
(in RMB per square meter) . .	3,800.0	4,681.0	5,032.0	5,357.1	5,791.0	6,237.3	6,324.0	6,792.5	7,475.6	7,892.3	8,736.9	9,310.3	8.5%
Average price of residential properties													
(in RMB per square meter) . .	3,576.0	4,459.0	4,725.0	4,993.2	5,429.9	5,849.8	5,933.0	6,472.4	7,202.6	7,613.8	8,544.1	9,287.1	9.1%
Average price of office buildings													
(in RMB per square meter) . .	8,378.0	10,608.0	11,406.0	12,327.3	12,306.4	12,996.5	11,826.0	12,914.1	14,332.2	13,543.1	14,385.4	14,314.6	5.0%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

The Property Market in the Chengdu-Chongqing Economic Zone

The Chengdu-Chongqing Economic Zone centers around the cities of Chengdu and Chongqing and occupies an area of approximately 155,000 square meters. The region has a GDP of approximately RMB2,972.9 billion in 2016 and has a population of over 40 million. The Chinese government plans to construct various water conservancy facilities and energy supply system in the Chengdu-Chongqing Economic Zone and also plans to develop the region into a comprehensive transportation hub and logistics center. The Chengdu-Chongqing Economic Zone is an important base for China's advanced equipment manufacturing industry, modern service industry, high-tech industry and agriculture industry. The region is also a national pilot area for the co-ordination of urban and rural comprehensive reform and was classified as a national protected ecological security zone. The Chengdu-Chongqing Economic Zone serves as the primary success model as to western China's development potential.

Sale of properties in the Chengdu-Chongqing Economic Zone has experienced an upward trend in recent years. The total GFA of properties sold in the Chengdu-Chongqing Economic Zone increased from approximately 43.3 million square meters in 2008 to approximately 101.9 million square meters in 2016, representing a CAGR of approximately 10.9%. The table below sets forth selected data relating to the property market in the Chengdu-Chongqing Economic Zone for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	08-16 CAGR
Overview										
Total GFA sold (in million square meters)	43.3	67.1	68.7	72.5	73.7	77.7	80.5	83.8	101.9	11.3%
Total sales revenue (in RMB billions)	150.9	271.2	336.6	395.7	437.0	480.6	489.0	501.3	638.0	19.7%
Average price of properties (in RMB per square meter) . .	3,483	4,041	4,897	5,470	5,933	6,187	6,074	5,983	6,264	7.6%
Investment in properties (in RMB billions)	190.4	218.4	289.9	361.1	439.8	512.4	584.6	618.7	636.7	16.3%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

Chengdu

Chengdu is the capital city of Sichuan Province and is located at the western edge of the Sichuan Basin, with an area of approximately 12,390 square kilometers. In 2007, the central government of the PRC designated Chengdu as a National Experimental Zone of Comprehensive Coordinated Reforms for Balanced Urban and Rural Development in recognition of Chengdu's comprehensive strength and development potential in western China. It had a population of approximately 16.6 million in 2019. Chengdu has experienced significant GDP growth rate in recent years from approximately RMB394.5 billion in 2008 to approximately RMB1,701.3 billion in 2019, representing a CAGR of approximately 14.2%.

In line with the rapid economic growth of Chengdu, the volume of sales of local properties has experienced an upward trend in recent years. According to the Chengdu Bureau of Statistics, the total GFA of properties sold in Chengdu increased from approximately 14.6 million square meters in 2008 to approximately 35.3 million square meters in 2019, representing a CAGR of approximately 8.4%. The average price of properties in Chengdu increased from approximately RMB4,856.6 per square meter in 2008 to approximately RMB10,887.5 per square meter in 2019, representing a CAGR of approximately 7.6%. Investment in properties in Chengdu in 2018 continued to show steady increase to approximately RMB226.8 billion. The table below sets forth data relating to the property market in Chengdu for the periods indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	08-19 CAGR
Total GFA sold													
(in million square meters) . . .	14.6	27.1	25.6	27.0	28.5	29.5	29.5	30.2	39.4	39.2	36.8	35.3	8.4%
Total sales revenue													
(in RMB billions)	70.9	133.4	151.9	180.6	207.0	212.2	207.2	206.6	295.0	342.5	363.3	384.5	16.6%
Average price of properties													
(in RMB per square meter) . .	4,856.6	4,924.7	5,936.5	6,677.0	7,275.0	7,196.7	7,023.8	6,843.1	7,496.7	8,731.8	9,867.7	10,887.5	7.6%
Investment in properties													
(in RMB billions)	92.4	94.5	127.8	158.5	189.0	211.0	222.1	244.2	263.9	248.8	226.8	N/A	N/A
Total GFA of office buildings sold													
(in thousand square meters) . .	247.7	578.6	779.0	798.9	1,481.4	1,060.3	1,223.0	943.1	1,162.2	2,352.6	2,733.7	N/A	N/A
Total sales revenue from office buildings (in RMB billions) . .	1.7	3.4	7.2	8.0	13.6	10.7	9.7	7.3	10.1	23.5	30.8	N/A	N/A
Average price of office buildings (in RMB per square meter) . .	6,788.4	5,881.0	9,280.3	10,070.0	9,207.7	10,095.4	7,893.9	7,703.0	8,721.4	9,982.4	11,284.5	N/A	N/A
Investment in office buildings (in RMB billions)	2.2	3.1	5.0	8.3	12.6	15.9	14.9	17.1	21.7	21.6	18.1	N/A	N/A

Sources: National Bureau of Statistics of China, Chengdu Bureau of Statistics

The Property Market in the Pearl River Delta Region

The Pearl River Delta region is one of the leading economic regions and a major manufacturing center of China. It covers nine prefectures of the province of Guangdong, namely Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Foshan, Huizhou, Jiangmen and Zhaoqing, and is adjacent to Hong Kong and Macau. It had a population of over 60.0 million in 2016 and occupies an area of approximately 41,500 square meters. The Chinese government aims to make the Pearl River Delta region a shipping, logistics, trade, exhibition, tourism and innovation center for mutual development with Hong Kong and Macau, and position the region as a pioneer for carrying out various reforms and a key economic center of China.

Sale of properties in the Pearl River Delta region has experienced an upward trend in recent years. The total GFA of properties sold in the Pearl River Delta region increased from approximately 37.7 million square meters in 2008 to approximately 107.0 million square meters in 2016, representing a CAGR of approximately 12.7%. The table below sets forth selected data relating to the property market in the Pearl River Delta region for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	08-16 CAGR
Overview										
Total GFA sold (in million square meters)	37.7	55.4	55.7	54.6	57.6	72.0	67.3	87.1	107.0	13.9%
Total sales revenue (in RMB billions)	262.3	417.3	488.3	506.8	545.0	764.6	722.8	999.7	N/A	N/A
Average price of properties (in RMB per square meter)	6,967	7,530	8,763	9,282	9,466	10,624	10,742	11,482	13,257	8.4%
Investment in properties (in RMB billions)	256.6	258.3	311.9	402.3	448.4	536.3	629.4	707.6	860.1	16.3%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

Shenzhen

Shenzhen is located in the southern part of Guangdong Province and borders Hong Kong with an area of approximately 1,953 square kilometers. It had a population of over 13.4 million in 2019. Shenzhen has experienced GDP growth in recent years from approximately RMB794.1 billion in 2008 to approximately RMB2,692.7 billion in 2019, representing a CAGR of approximately 11.7%. Furthermore, in 2007, Shenzhen became the first and only city in China with a per capita GDP of over US\$10,000 according to various news reports.

In line with the economic growth of Shenzhen, property price has increased significantly in recent years. According to the Shenzhen Bureau of Statistics, the investment in properties in Shenzhen increased from approximately RMB44.0 billion in 2008 to RMB264.1 billion in 2018, representing a CAGR of approximately 19.6%. The table below sets forth data relating to the property market in Shenzhen for the periods indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold												
(in million square meters)	4.7	7.6	4.7	5.0	5.3	5.9	5.3	8.3	7.4	6.7	7.2	N/A
Total sales revenue												
(in RMB billions)	59.1	111.4	89.3	106.1	103.0	143.6	131.7	282.2	332.4	321.7	390.8	N/A
Average price of properties												
(in RMB per square meter)	12,665.1	14,614.7	19,110.3	21,350.1	19,589.8	24,401.9	24,723.4	33,942.2	45,146.3	47,935.8	54,132.4	N/A
Investment in properties												
(in RMB billions)	44.0	43.7	45.8	51.5	73.7	87.7	106.9	133.1	175.7	213.6	264.1	19.6%

Sources: National Bureau of Statistics of China, Shenzhen Bureau of Statistics

Dongguan

Dongguan is a prefecture-level city located in central Guangdong province. It is an important industrial city located in the Pearl River Delta region and borders the provincial capital of Guangzhou with an area of approximately 2,465 square kilometers. It had a population of approximately 8.3 million in 2017. Dongguan has experienced significant GDP growth in recent years from approximately RMB371.6 billion in 2008 to approximately RMB948.3 billion in 2019, representing a CAGR of approximately 8.9%.

In line with the economic growth of Dongguan, the volume of sales of local properties has experienced an upward trend in recent years. According to the Dongguan Bureau of Statistics, the total GFA of properties sold in Dongguan increased from approximately 5.1 million square meters in 2008 to approximately 7.4 million square meters in 2019, representing a CAGR of approximately 3.4%. The table below sets forth data relating to the property market in Dongguan for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	08-19 CAGR
Total GFA sold (in million square meters)	5.1	6.0	5.1	6.0	6.4	8.0	6.4	10.4	10.2	8.0	6.9	7.4	3.4%
Total sales revenue (in RMB billions)	28.4	35.3	37.4	46.0	54.2	72.8	62.7	101.9	141.8	134.9	122.4	138.5	15.5%
Average price of properties (in RMB per square meter)	5,566.8	5,880.7	7,310.2	7,716.6	8,486.3	9,065.8	9,735.8	9,792.9	13,846.0	16,876.8	17,737.4	18,732.9	11.7%
Investment in properties (in RMB billions)	27.1	27.8	29.9	37.4	37.7	49.8	58.8	57.5	64.3	70.2	73.7	N/A	N/A

Sources: National Bureau of Statistics of China, Dongguan Bureau of Statistics

Huizhou

Huizhou is a prefecture-level city located in the south-eastern part of Guangdong Province with an area of approximately 11,200 square kilometers. It had a population of approximately 4.9 million in 2019. Huizhou has experienced GDP growth rate in recent years from approximately RMB131.0 billion in 2008 to approximately RMB417.7 billion in 2019, representing a CAGR of approximately 11.1%.

In line with the economic growth of Huizhou, the volume of sales of local properties has experienced an upward trend in recent years. According to the Huizhou Bureau of Statistics, the total GFA of properties sold in Huizhou increased from approximately 3.0 million square meters in 2008 to approximately 16.6 million square meters in 2018, representing a CAGR of approximately 18.8%. The table below sets forth data relating to the property market in Huizhou for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold (in million square meters)	3.0	5.4	6.3	8.0	8.3	11.5	9.8	13.0	17.7	16.5	16.6	18.8%
Total sales revenue (in RMB billions)	12.2	23.2	31.1	44.1	47.8	67.2	58.9	80.0	141.5	162.9	177.8	30.7%
Average price of properties (in RMB per square meter)	4,121.0	4,266.4	4,960.5	5,536.5	5,787.0	5,847.2	5,984.3	6,157.8	7,988.7	9,897.6	10,691.6	N/A
Investment in properties (in RMB billions)	18.7	17.5	26.8	37.7	48.2	59.3	66.7	61.0	74.8	88.4	98.4	18.1%

Sources: National Bureau of Statistics of China, Huizhou Bureau of Statistics, Wind

The Property Market in the Yangtze River Delta Region

The Yangtze River Delta region has one of the strongest regional economies in China. It includes two provinces, Jiangsu and Zhejiang, and one city, Shanghai. Its population accounts for approximately 11.6% of China's total population in 2016 and its GDP accounts for approximately 20.2% of China's total GDP in 2016. The Chinese government has positioned the Yangtze River Delta region as China's strongest economic, financial, trading and shipping centers.

Sale of properties in the Yangtze River Delta region has experienced an upward trend in recent years. The total GFA of properties sold in the Yangtze River Delta region increased from approximately 113.8 million square meters in 2008 to approximately 253.0 million square meters in 2016, representing a CAGR of approximately 10.5%. The table below sets forth selected data relating to the property market in the Yangtze River Delta Region for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	08-16 CAGR
Total GFA sold (in million square meters)	113.8	191.6	163.6	132.7	149.2	187.2	166.1	198.3	253.0	10.5%
Total sales revenue (in RMB billions)	623.6	1,377.1	1,295.9	1,126.7	1,299.9	1,722.1	1,532.1	1,978.9	2,859.4	21.0%
Average price of properties (in RMB per square meter)	5,480	7,188	7,923	8,489	8,711	9,197	9,225	9,979	11,300	9.5%
Investment in properties (in RMB billions)	669.5	705.7	930.5	1,187.6	1,381.4	1,627.7	1,870.9	1,873.5	2,013.5	14.8%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

Suzhou

Suzhou is a prefecture-level city located in the southeast of Jiangsu province. It is a part of the Yangtze River Delta region and is located on the shores of the Taihu Lake adjacent to the Shanghai municipality. It has an area of approximately 8,488 square kilometers. It had a population of approximately 10.7 million in 2019. Suzhou has experienced significant GDP growth in recent years from approximately RMB716.3 billion in 2008 to approximately RMB1,923.6 billion in 2019, representing a CAGR of approximately 9.4%.

In line with the economic growth of Suzhou, property price has increased significantly in recent years. According to the Suzhou Bureau of Statistics, the investment in properties in Suzhou increased from approximately RMB71.8 billion in 2008 to RMB255.8 billion in 2018, representing a CAGR of approximately 13.5%. The table below sets forth data relating to the property market in Suzhou for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold (in million square meters)	10.1	23.5	15.1	12.1	14.7	18.8	16.0	21.3	24.9	19.4	19.9	7.1%
Total sales revenue (in RMB billions)	57.3	150.7	124.8	109.1	133.6	180.4	154.7	220.0	332.2	28,914	311.8	N/A
Average price of properties (in RMB per square meter)	5,692.3	6,422.7	8,243.5	9,012.6	9,114.4	9,620.3	9,673.9	10,310.6	13,321.9	14,941.4	15,635.0	N/A
Investment in properties (in RMB billions)	71.8	72.4	93.6	119.9	126.3	147.6	176.4	186.5	216.3	230.6	255.8	13.5%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Wuxi

Wuxi is a prefecture-level city located in the south of Jiangsu province. It is a part of the Yangtze River Delta region and is bordered by Changzhou in the west and Suzhou to the east. It has an area of approximately 4,627 square kilometers. It had a population of approximately 6.6 million in 2019. Wuxi has experienced significant GDP growth in recent years from approximately RMB453.0 billion in 2008 to approximately RMB1,185.2 billion in 2019, representing a CAGR of approximately 9.1%.

In line with the economic growth of Wuxi, investment in properties has increased significantly in recent years. According to the Wuxi Bureau of Statistics, investment in properties in Wuxi increased from approximately RMB45.0 billion in 2008 to RMB120.2 billion in 2017, representing a CAGR of approximately 11.5%. The table below sets forth data relating to the property market in Wuxi for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold												
(in million square meters)	5.4	11.1	10.5	6.6	9.3	9.1	8.4	9.9	12.8	11.8	13.8	9.9%
Total sales revenue												
(in RMB billions)	28.9	66.6	81.1	57.0	77.7	71.6	65.1	77.6	110.8	125.4	158.2	18.5%
Average price of properties												
(in RMB per square meter)	5,375.5	5,996.9	7,764.3	8,637.3	8,384.9	7,570.6	7,760.2	7,866.2	8,680.8	10,607.7	11,480.7	N/A
Investment in properties												
(in RMB billions)	45.0	46.3	61.3	87.8	97.4	112.9	125.2	99.2	103.4	120.2	N/A	N/A

Sources: National Bureau of Statistics of China, Wuxi Bureau of Statistics, Wind

Ningbo

Ningbo is a prefecture-level city located in the northeast of Zhejiang province. It is a part of the Yangtze River Delta region and is bordered by East China Sea and Zhoushan Archipelago in the east, Hangzhou bay in the north, Shaoxing in the west and Taizhou in the south. It has an area of approximately 9,816 square kilometers. It had a population of approximately 8.5 million in 2019. Ningbo has experienced significant GDP growth in recent years from approximately RMB396.4 billion in 2008 to approximately RMB1,198.5 billion in 2019, representing a CAGR of approximately 10.6%.

In line with the economic growth of Ningbo, investment in properties has increased significantly in recent years. According to the Ningbo Bureau of Statistics, investment in properties in Ningbo increased from approximately RMB30.8 billion in 2008 to RMB158.7 billion in 2018, representing a CAGR of approximately 17.8%. The table below sets forth data relating to the property market in Ningbo for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold												
(in million square meters)	4.5	8.2	6.9	5.3	5.9	7.3	7.3	10.1	13.4	15.4	16.2	13.7%
Total sales revenue												
(in RMB billions)	32.4	73.3	77.8	58.1	66.3	81.0	78.1	103.9	150.1	205.7	245.1	N/A
Average price of properties												
(in RMB per square meters)	7,224.0	8,991.7	11,224.2	11,031.7	11,239.8	11,100.0	10,744.7	10,315.7	11,228.5	13,324.1	15,087.2	7.7%
Investment in properties												
(in RMB billions)	30.8	37.5	55.7	75.5	88.4	112.3	132.8	122.9	127.0	137.4	158.7	17.8%

Sources: National Bureau of Statistics of China, Ningbo Bureau of Statistics

The Property Market in the Beijing-Tianjin Metropolitan Region

Beijing-Tianjin metropolitan region centers around two cities, Beijing and Tianjin, which are the most economically vibrant cities in northern China. In 2016, the region had a GDP of RMB4,278.5 billion and accounted for approximately 5.7% of China's total GDP.

Sale of properties in the Beijing-Tianjin metropolitan region has experienced an upward trend in recent years. The average price of properties increased from approximately RMB9,320 per square meter in 2008 to approximately RMB18,398 per square meter in 2016, representing a CAGR of approximately 8.9%. The table below sets forth selected data relating to the property market in the Beijing-Tianjin metropolitan region for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	08-16 CAGR
Total GFA sold (in million square meters)	25.9	39.5	31.5	30.3	36.1	37.5	30.7	33.3	43.7	6.8%
Total sales revenue (in RMB billions)	241.1	435.5	416.2	382.0	467.4	514.6	422.6	530.8	804.0	16.2%
Average price of properties (in RMB per square meter)	9,320	11,018	13,195	12,591	12,964	13,723	13,777	15,961	18,398	8.9%
Investment in properties (in RMB billions)	256.2	307.3	376.8	411.7	441.3	496.4	541.5	604.9	630.1	11.9%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities, Wind

Tianjin

Tianjin is one of the four municipalities of China that are directly under the central government and have provincial-level status, with an area of approximately 11,920 square kilometers. It had a population of approximately 15.6 million in 2019. The city's urban area is located along the Haihe River and its ports are located on Bohai Gulf in the Pacific Ocean. Tianjin has experienced significant GDP growth in recent years from approximately RMB680.6 billion in 2008 to approximately RMB1,410.4 billion in 2019, representing a CAGR of approximately 6.8%.

In line with the economic growth of Tianjin, the volume of sales of local properties has experienced an upward trend in recent years. According to the Tianjin Bureau of Statistics, the total average price of properties in Tianjin increased from approximately RMB6,015 per square meter in 2008 to approximately RMB16,055 per square meter in 2018, representing a CAGR of approximately 10.3%. The table below sets forth selected data relating to the property market in Tianjin for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold												
(in million square meters)	12.5	15.9	15.6	16.4	16.6	18.5	16.1	17.7	27.1	14.8	12.5	0.0%
Total sales revenue												
(in RMB billions)	75.3	109.5	128.2	147.3	136.6	161.5	148.7	179.0	347.8	227.2	200.7	10.3%
Average price of properties												
(in RMB per square meter)	6,015.4	6,885.7	8,196.9	8,965.4	8,217.7	8,745.9	9,218.6	10,106.9	12,829.6	15,331.4	16,054.6	10.3%
Investment in properties												
(in RMB billions)	65.4	73.5	86.7	108.0	126.0	148.1	170.0	187.2	230.0	223.3	N/A	N/A
Total GFA of office buildings sold												
(in thousand square meters)	293.0	295.5	352.9	671.4	281.7	234.9	211.0	162.6	310.6	432.8	374.6	2.5%
Total sales revenue from office buildings (in RMB billions)	2.9	3.3	4.9	6.0	3.8	2.7	3.6	2.5	4.5	7.9	6.7	8.9%
Average price of office buildings (in RMB per square meter)	9,783	11,134	13,855	8,907	13,349	11,441	16,972	15,514	14,396	18,327	17,998	6.3%
Investment in office buildings (in RMB billions)	3.1	3.3	7.7	11.0	8.6	10.0	12.4	10.8	12.5	9.3	N/A	N/A

Sources: National Bureau of Statistics of China, Tianjin Bureau of Statistics, Wind

The Property Market in the Other Cities

Guilin

Guilin is the capital city of Guangxi province and is located in the northeast of Guangxi. It has an area of approximately 27,809 square kilometers. It had a population of approximately 5.1 million in 2019. Guilin has experienced significant GDP growth in recent years from approximately RMB85.2 billion in 2008 to approximately RMB210.6 billion in 2019, representing a CAGR of approximately 8.6%.

In line with the economic growth of Guilin, the volume of sales of local properties has experienced an upward trend in recent years. According to the Guilin Bureau of Statistics, the total volume of sales of properties in Guilin increased from approximately RMB7.4 billion in 2008 to RMB36.9 billion in 2018, representing a CAGR of approximately 17.4%. The table below sets forth data relating to the property market in Guilin for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	08-18 CAGR
Total GFA sold												
(in million square meters)	2.7	2.7	3.2	3.0	3.2	3.8	3.5	3.6	4.4	5.3	6.0	8.4%
Total sales revenue												
(in RMB billions)	7.4	8.2	11.6	11.8	13.7	16.9	17.1	17.4	21.5	29.3	36.9	17.4%
Average price of properties												
(in RMB per square meter)	2,796.1	2,980.6	3,574.2	3,891.8	4,232.9	4,412.7	4,862.9	4,859.3	4,897.1	5,544.3	6,189.6	8.3%
Investment in properties												
(in RMB billions)	8.3	9.2	11.8	15.8	17.6	19.4	21.5	19.1	28.1	30.0	32.6	14.6%

Sources: National Bureau of Statistics of China, Guilin Bureau of Statistics, Wind

Dali

Dali Autonomous Prefecture is located in the middle part of Yunnan province. It has an area of approximately 29,459 square kilometers. It had a population of approximately 3.6 million in 2017. Dali has experienced significant GDP growth in recent years from approximately RMB37.2 billion in 2008 to approximately RMB137.5 billion in 2019, representing a CAGR of approximately 12.6%.

In line with the economic growth of Dali, the volume of sales of local properties has experienced an upward trend in recent years. According to the Dali Bureau of Statistics, the total volume of sales of properties in Dali increased from approximately RMB1.4 billion in 2008 to RMB8.3 billion in 2016, representing a CAGR of approximately 24.3%. The table below sets forth data relating to the property market in Dali for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	08-16 CAGR
Total GFA sold										
(in million square meters)	0.4	1.0	1.0	1.5	1.8	1.4	1.1	1.1	1.5	17.1%
Total sales revenue										
(in RMB billions)	1.4	3.0	3.8	6.0	8.3	7.1	7.0	6.6	8.3	24.3%
Average price of properties										
(in RMB per square meter)	3,450	3,108	3,593	4,003	4,591	5,109	6,050	5,761	5,562	6.2%
Investment in properties										
(in RMB billions)	2.0	2.6	3.3	4.6	7.7	11.5	15.4	14.7	12.3	25.1%

Sources: National Bureau of Statistics of China, Dali Bureau of Statistics

The Property Management Industry In China

According to China Index Academy, the PRC property management industry has been evolving since the 1980's. The industry is currently very fragmented.

From 2008 to 2014, the average GFA managed by the top 100 property management companies grew from 6.7 million sq.m. to 17.5 million sq.m., representing a CAGR of 17.4%. In 2014, while government's macroeconomic measures intensified and the trend of rapid growth of the real estate market was curbed under control, the top 100 property management companies still managed to sustain their competitive advantage in the market by leveraging their brand recognition and high quality services. By the end of 2014, the top 100 property management companies managed 94 properties on average, representing a CAGR of 13.9% since 2008.

In terms of geographical coverage, since 2008, the top 100 property management companies have established presence in an increasing number of locations, reaching an average of 24 cities as of the end of 2014. According to China Index Academy, among the top 100 property management companies in 2014, 35% of the managed properties were in tier-1 cities, 42% were in tier-2 cities, and 23% were in tier-3 and tier-4 cities.

According to China Index Academy, the top 100 property management companies have strengthened their business scale within cities where they already have some presence by increasing the number of properties they manage in those cities. Furthermore, some of the top 100 property management companies are transforming from regional to national enterprises with a relatively fast pace of expansion, and some of them also pursue acquisitions to accelerate expansion.

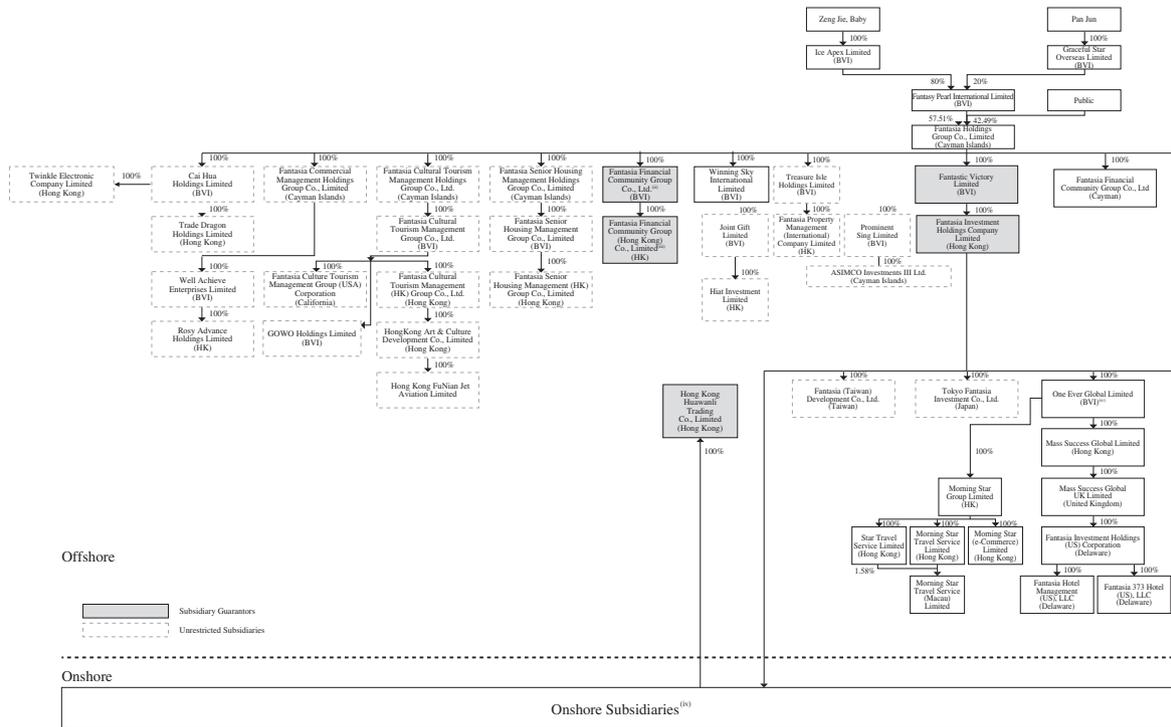
Our directors are optimistic that, while competition is intense, the long-term growth prospects for the property management industry in China are promising as the underlying property market continues to develop along with China's economic growth. Our directors also expect that, as the industry continues to develop, there will be a growing demand for quality and reliable services from property management companies with industry consolidation that eliminates small and inefficient companies and allowing companies with sufficient resources operating on economies of scale to eventually emerge as market leaders.

The Hotel Services Industry In China

The growth of the PRC economy and its tourism industry has led to a rapid development of the hotel industry in China in recent years. According to the National Bureau of Statistics of China and the National Tourism Administration of China (中國國家旅游局), total tourism volume grew from 1,842 million visits in 2008 to 3,739 million visits in 2014 with a CAGR of 12.5% and total tourism revenue in China grew from RMB1,158.6 billion in 2008 to RMB3,380.0 billion in 2014 with a CAGR of 19.5%. As a result of the desire to benefit from an increasingly affluent domestic population as well as the influx of visitors, many foreign corporate and hotel investors, developers and operators have entered into the hotel industry in China with a hope of securing a presence in the industry. In addition, China's entry into the WTO in 2002, Beijing's successful organization of the 2008 Olympic games and Shanghai's successful organization of the World Expo in 2010, have served to illustrate China's importance in the world stage, and thereby furthered strong interest and growth in the hotel industry in China, especially in the major cities.

CORPORATE STRUCTURE

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



Notes:

- (i) Fantasia (Novena) Pte. Ltd. was designated as an unrestricted subsidiary under our existing senior notes and will be designated as an Unrestricted Subsidiary in connection with our offering of the Notes, meeting the definition of a subsidiary thereunder. However, it is treated as a joint venture under HKFRS.
- (ii) previously known as Fantasia Financial Holdings Group Co., Ltd.
- (iii) previously known as Fantasia Financial Holdings (Hong Kong) Co., Limited.
- (iv) As of the date of this offering memorandum, the Company had 304 onshore subsidiaries.

The Chinese names of the PRC entities are as follows:

1. 花樣年集團(中國)有限公司
2. 雅浩科技發展(深圳)有限公司
3. 深圳市花千里房地產開發有限公司
4. 深圳市瑞禹科技有限公司
5. 深圳市百業騰興科技有限公司
6. 深圳宏威裝飾設計工程有限公司
7. 深圳市花樣年股權投資基金管理有限公司
8. 深圳市花樣年地產集團有限公司
9. 深圳市高華投資有限公司
10. 深圳市康年科技有限公司
11. 深圳立得屋住宅科技有限公司
12. 深圳市星彥行置業有限公司
13. 深圳市星彥行置業有限公司桂林分公司
14. 深圳市星彥行置業有限公司成都分公司
15. 深圳市星彥行置業有限公司廣州分公司
16. 深圳市星彥行置業有限公司天津分公司
17. 深圳市星彥行置業有限公司蘇州分公司
18. 深圳市星彥行置業有限公司惠州分公司
19. 深圳市星彥行置業有限公司武漢分公司
20. 深圳市星彥行置業有限公司無錫分公司
21. 深圳市星彥行置業有限公司南京分公司
22. 深圳市星彥行置業有限公司南山分公司
23. 深圳市星彥行置業有限公司寧波市北侖分公司
24. 深圳市星彥行置業有限公司東莞分公司
25. 深圳市星彥行置業有限公司昆明分公司
26. 江蘇立德綠色建築系統集成有限公司
27. 深圳市花千里投資發展有限公司
28. 深圳市花樣年產業投資發展有限公司
29. 廣州市花樣年房地產有限公司
30. 廣州市花百里置業有限公司
31. 上海花樣年房地產開發有限公司
32. 慈溪花創房地產開發有限公司
33. 深圳市樂年置業有限公司
34. 深圳市花樣年地產集團有限公司碧雲天停車場
35. 北京花創置業發展有限公司
36. 花千里(北京)房地產開發有限公司
37. 北京碧雲天房地產開發有限公司
38. 上海粵商投資有限公司
39. 上海錦年酒店管理有限公司
40. 天津松江花樣年置業有限公司
41. 天津松江花樣年置業有限公司有園酒店分公司
42. 天津市花樣年投資有限公司
43. 天津市花萬裏房地產開發有限公司
44. 天津福大房地產銷售有限公司
45. 天津市花千里房地產開發有限公司
46. 天津花樣年房地產開發有限公司
47. 南京花樣年房地產開發有限公司
48. 南京花樣年房地產開發有限公司板橋分公司
49. 南京花樣城房地產開發有限公司
50. 句容多彩農業生態園發展有限公司
51. 深圳市花樣年國際物業服務有限公司
52. 深圳市美易家商務服務集團股份有限公司
53. 武漢TCL置地投資有限公司
54. 武漢TCL康城房地產有限公司
55. 武漢市花萬裏房地產開發有限公司
56. 武漢市花千里房地產開發有限公司
57. 武漢美樂居置業有限公司
58. 蒲江縣大溪穀酒店管理有限公司
59. 成都市花樣年房地產開發有限公司
60. 成都市花樣年房地產開發有限公司花樣年隆堡酒店分公司
61. 花樣年實業發展(成都)有限公司
62. 成都市諾亞舟實業有限公司
63. 成都花百里置業有限公司
64. 成都花千里置業有限公司
65. 成都花萬裏置業有限公司
66. 成都花樣年望叢文化發展有限公司
67. 成都九蓉房地產開發有限公司
68. 成都九蓉房地產開發有限公司有園酒店管理分公司
69. 成都花港置業有限公司
70. 成都望叢房地產開發有限公司
71. 成都望叢房地產開發有限公司郫縣花生唐分公司
72. 成都新達遠房地產開發有限公司
73. 成都花樣年置富房地產開發有限公司
74. 成都美香福置業有限公司

75. 成都禦棧福悅貿易有限公司
76. 四川瀚鋒置業有限公司
77. 花樣年(成都)生態旅遊開發有限公司
78. 花樣年(成都)生態旅遊開發有限公司蒲江分公司
79. 花樣年(成都)生態旅遊開發有限公司蒲江花樣年酒店分公司
80. 花樣年(成都)生態旅遊開發有限公司大溪穀分公司(酒店)
81. 成都新津友幫房地產開發有限責任公司
82. 成都新津友幫房地產開發有限責任公司個園酒店分公司
83. 成都花樣年趣園酒店管理有限公司
84. 成都花樣年商業管理有限公司
85. 成都市花樣年物業服務有限公司
86. 成都市福泰年企業管理有限公司
87. 成都市福鄰養老服務有限公司
88. 成都武侯福鄰中醫診所有限公司
89. 深圳市花樣年餐飲策劃管理有限公司
90. 深圳市福年商務航空有限公司
91. 宜興市江南水鄉度假村有限公司
92. 宜興市江南水鄉度假村有限公司西渚分公司
93. 江蘇東發置業有限公司
94. 宜興市雲海閣酒店管理有限公司
95. 蘇州市花萬裏房地產開發有限公司
96. 蘇州銀莊置地有限公司
97. 蘇州銀莊置地有限公司高新區分公司
98. 寧波世紀華豐房產有限公司
99. 海逸投資有限公司
100. 惠州市惠陽區花千里實業有限公司
101. 惠州大亞灣花萬裏實業有限公司
102. 惠州市花樣年房地產開發有限公司
103. 惠州TCL房地產開發有限公司
104. 廣東(惠州)TCL工業文化創意園發展有限公司
105. 惠州市TCL鴻融置業有限公司
106. 惠州市鴻邁園林綠化有限公司
107. 亞新科天緯燃油系統(天津)有限公司
108. 北油電控燃油技術(北京)有限公司
(原名:北京經緯君和科技有限公司)
109. 深圳市花樣年城市更新投資發展有限公司
110. 深圳市騰星宏達投資發展有限公司
111. 深圳市越華創新科技工業城有限公司
112. 深圳市越華創新科技工業城有限公司龍崗分公司
113. 深圳市生百景投資發展有限公司
114. 深圳市花樣祥投資發展有限公司
115. 深圳市金地盈投資有限公司
116. 深圳市國正向前投資發展有限公司
117. 深圳安博電子有限公司
118. 深圳市花萬裏酒店管理有限公司
119. 深圳市前海花樣年金融服務有限公司
120. 深圳市前海合盈融資租賃有限公司
121. 花樣年商業旅遊文化發展(深圳)有限公司
122. 深圳市花樣年文化旅游管理有限公司
123. 深圳市七二唐俱樂部管理有限公司
124. 深圳市藝之年文化藝術發展有限公司
125. 深圳市花樣年旅游景区管理有限公司
126. 深圳市花樣年工程建設諮詢有限公司
127. 深圳市蓮塘物業管理有限公司
128. 深圳市蓮塘物業管理有限公司福年分公司
129. 深圳市蓮塘物業管理有限公司長興分公司
130. 深圳市蓮塘物業管理有限公司美年分公司
131. 深圳市蓮塘物業管理有限公司石家莊分公司
132. 深圳市福泰年投資管理有限公司
133. 深圳市花樣年養生養老管理有限公司
134. 東莞市花樣年房地產投資有限公司
135. 東莞市花千里房地產開發有限公司
136. 桂林帝豪房地產開發有限公司
137. 桂林帝豪房地產開發有限公司臨桂花樣年酒店分公司
138. 桂林帝豪房地產開發有限公司花樣國際廣場分公司
139. 桂林市花樣年房地產開發有限公司
140. 桂林聚豪房地產開發有限公司
141. 桂林聚豪房地產開發有限公司臨桂麓湖公館餐飲管理分公司
142. 桂林萬豪房地產開發有限公司
143. 江西君安物業管理有限公司
144. 南昌市友聯置業有限公司
145. 雲南花萬裏房地產開發有限公司

146. 昆明花樣年房地產開發有限公司
147. 大理市花樣年房地產開發有限公司
148. 青島廣源昌益商貿有限公司
149. 青島康鑫誠涵投資管理有限公司
150. 寧夏回族自治區新聖基建築工程有限公司
151. 寧夏回族自治區新聖基建築工程有限公司深圳分公司
152. 寧夏回族自治區新聖基建築工程有限公司成都分公司
153. 寧夏回族自治區新聖基建築工程有限公司大理分公司
154. 寧夏回族自治區新聖基建築工程有限公司桂林分公司
155. 寧夏回族自治區新聖基建築工程有限公司廣州分公司
156. 寧夏回族自治區新聖基建築工程有限公司南京分公司
157. 桂林市合和年小額貸款有限責任公司
158. 深圳市合保盈商業保理有限公司
159. 深圳市中安信保險經紀有限公司
160. 深圳市花樣年文旅股權投資基金管理有限公司
161. 成都合盈融資租賃有限公司
162. 深圳市合盈創新金融發展研究院
163. 深圳市搭一程移動科技有限公司
164. 深圳前海嘉年投資基金管理有限公司
165. 深圳市搜社社區服務發展研究院有限公司
166. 深圳市花樣年喜年一號投資中心(有限合夥)
167. 深圳前海花萬裏供應鏈管理服務有限公司
168. 深圳市牛田機電設備工程有限公司
169. 深圳市牛田機電設備工程有限公司成都分公司
170. 深圳市牛田機電設備工程有限公司海南分公司
171. 深圳市牛田機電設備工程有限公司天津分公司
172. 深圳市名鑄裝飾設計工程有限公司
173. 深圳美朗商業管理有限公司
174. 深圳前海嘉年在田投資諮詢有限公司
175. 武漢花樣年投資有限公司(武漢TCL房地產有限公司)
176. 深圳市花好園房地產經營服務有限公司
177. 深圳市美之年資產管理有限公司
178. 太倉起浩商貿有限公司
179. 武漢康乾置業有限公司
180. 貴州省多維年房地產開發有限公司
181. 香港福年航空有限公司
182. 中投大石生態農業發展有限公司
183. 深圳市前海譽熹商務有限公司
184. 深圳花樣年投資諮詢有限公司
185. 慈溪嘉年鴻迪房地產開發有限公司
186. 武漢市鴻隆錦房地產置業有限公司
187. 成都牽銀置業有限公司
188. 成都禦府房地產開發有限公司
189. 西安花樣年房地產開發有限公司
190. 深圳市花漾創新商業經營管理有限公司
191. 深圳前海嘉年鴻迪投資諮詢有限公司
192. 深圳前海嘉年鴻遠投資諮詢有限公司
193. 貴州省花萬裏房地產開發有限公司
194. 上海聚年實業有限公司
195. 重慶市花千里企業管理有限公司
196. 廣州市特色城小鎮房地產開發有限公司
197. 深圳市前海合和年信息諮詢有限公司
198. 合肥市花樣年物業服務有限公司
199. 深圳市花好園物業管理有限公司
200. 北京花樣年道樸文化發展有限公司
201. 南京星潤置業有限公司
202. 四川三陽紅實業有限公司
203. 桂林市臨桂區萬福寶商業有限公司
204. 桂林市臨桂區萬福君安酒店有限公司
205. 深圳市花樣年實業發展有限公司
206. 深圳市花千里實業發展有限公司
207. 深圳前海嘉年信盈投資諮詢有限公司
208. 深圳市花樣年城市更新諮詢有限公司
209. 深圳市宣年文化傳播有限公司
210. 北京花樣年在田文化發展有限公司
211. 成都天宏益華貿易有限公司
212. 海南花樣年房地產開發有限公司
213. 惠州市光亮房地產開發有限公司
214. 南京花萬裏置業有限公司
215. 南京中儲房地產開發有限公司
216. 南京中儲房地產開發有限公司鼓樓區花生唐分公司
217. 石家莊花樣年房地產開發有限公司
218. 四川互興商貿有限公司
219. 武漢花萬裏產業園開發有限公司

220. 武漢市瑞錦天城房地產開發有限公司
221. 武漢中森華永紅房地產開發有限公司
222. 北油科技(深圳)有限公司
223. 北油電控燃油噴射系統(天津)有限公司
224. 天津天緯汽車零部件製造有限公司
225. 深圳前海花樣年數據管理有限公司
226. 安寧花千里房地產開發有限公司
227. 成都花樣家置業有限公司
228. 成都花樣清江房地產開發有限公司
229. 河北隆地興聖房地產開發有限公司
230. 杭州奇飛花創科技有限公司
231. 慈溪市金桂置業有限公司
232. 深圳市花樣年產業運營有限公司
233. 深圳市花樣年科技發展有限公司
234. 成都熙谷天成農業科技開發有限公司
235. 深圳市花火創新產業運營管理有限公司
236. 鄂州鑫港置業有限公司
237. 武漢欣誠開實業有限公司
238. 武漢升陽置業發展有限公司
239. 石家莊花嘉陽房地產開發有限公司
240. 蘇州花萬裏酒店有限公司
241. 深圳市花萬嘉投資有限公司
242. 深圳市三番哥產業投資服務有限公司
243. 深圳市嘉年創新實業發展有限公司
244. 深圳市花樣年創新實業發展有限公司
245. 東莞市通贏置業有限公司
246. 深圳市康年商貿有限公司
247. 花萬裏貿易(青島)有限公司
248. 惠州市天之鼎實業有限公司
249. 寧波杭州灣新區民恆房地產開發有限公司
250. 保定新都房地產開發有限公司
251. 惠州市龍新騰房地產開發有限公司
252. 武漢市愛灣亭房地產開發有限責任公司
253. 上海花創實業有限公司
254. 成都福鄰康護養老服務有限公司
255. 花樣年商旅文化產業(揚州)有限公司
256. 深圳前海嘉年鼎盛投資管理有限公司
257. 南京溧遠貿易有限公司
258. 深圳市英爵物業管理有限公司
259. 石河子市花樣年物業有限公司
260. 嘉興方宴投資合夥企業(有限合夥)
261. 深圳市龍新騰房地產開發有限公司
262. 深圳市前海嘉年鼎盛投資管理有限公司
263. 成都梵雅蒼文化傳播有限公司
264. 山東省花樣年投資集團有限公司
265. 青島花樣年投資控股有限公司
266. 青島嘉年資本投資有限公司
267. 四川西美投資有限公司
268. 深圳市花樣年城市發展運營有限公司
269. 深圳市花慶年投資發展有限公司
270. 惠州市花樣年城市更新投資有限公司
271. 北京福泰年養老服務有限公司
272. 成都市福鄰龍年養老服務有限公司
273. 美易家(上海)商業管理有限公司
274. 天津花樣年碧雲天房地產開發有限公司
275. 懷來軟通智雲房地產開發有限公司
276. 廣州豐年供應鏈管理有限公司
277. 青島家天下投資有限公司
278. 深圳前海嘉年奧美文化傳播有限公司
279. 唐山星彥行房地產經紀有限公司
280. 青島花樣年房地產開發有限公司
281. 武漢市碧雲天房地產開發有限公司
282. 深圳前海嘉年嘉怡投資諮詢合夥企業(有限合夥)
283. 深圳前海嘉年盈華投資諮詢合夥企業(有限合夥)
284. 懷來新聖基建築工程有限公司
285. 深圳市創科年產業運營管理有限公司
286. 鄭州美樂居房地產開發有限公司
287. 武漢市鴻融天城房地產開發有限責任公司
288. 武漢璟悅天成置業有限公司
289. 鄭州市花樣年房地產開發有限公司
290. 上海富年置業有限公司
291. 長沙市花樣年房地產開發有限公司
292. 鄭州市悅錦天城房地產開發有限公司
293. 長沙市悅錦城房地產開發有限公司

294. 鄭州市鑫億城房地產開發有限公司
295. 北京幸福七和餐飲管理有限公司
296. 太倉起浩商貿有限公司芝麻唐分公司
297. 南京星潤置業有限公司溧水分公司
298. 四川西美投資有限公司美年廣場分公司
299. 南京中儲房地產開發有限公司鼓樓區花生唐分公司
300. 上海繼年文化傳播有限公司
301. 上海泰年文化傳播有限公司
302. 深圳前海嘉年奧美文化傳播有限公司
303. 上海襄美文化傳播有限公司
304. 成都花樣明銳房地產開發有限公司

BUSINESS

Overview

We are a leading property developer and property related service provider in China. We first commenced our property development business in Shenzhen in 1996. Leveraging our broad experience and capabilities, we have successfully expanded into, and currently focus our real estate activities in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and the Central China Economics Area. For more than ten consecutive years from 2009 to 2019, we have members of our Group ranked among the China Top 100 Real Estate Developers (中國房地產百強企業) and the China Top 100 Property Management Companies (中國物業服務百強企業) by the China Real Estate Top 10 Research Team (中國房地產Top 10研究組). We are also recognized as of the “2019 China Top 100 Real Estate Enterprises – Top 10 in Financing Capacity” by the Enterprise Research Institute of Development Research Centre of the State Council, Institute of Real Estate Studies of Tsinghua University and China Index Academy. Over the years, we have received numerous other accolades in recognition of our property development, real estate management and services capabilities.

Our target customers are affluent middle- to upper-class individuals and families and fast growing small- to medium-sized enterprises. We envisage that the demand for properties designed for these customers will increase as such customers’ household income and purchasing power continue to rise. To cater to the diverse needs of our target customers, we have developed a portfolio of property development projects with a focus on the following:

- *Urban Complexes*

Our urban complexes are mostly located in the peripheral areas of existing central business districts in major cities such as Shenzhen and Chengdu or in the emerging new business districts designated under city development plans of local governments. These complexes integrate various types of properties, such as offices, apartments, retail shops and/or boutique hotels, into a single property development project.

- *Boutique Upscale Residences*

Our boutique upscale residences are located in urban and suburban areas with natural scenic surroundings or cultural landmarks. They are connected by roads or expressways to the centers of major metropolitan areas. These boutique upscale residences include high- and low-rise apartment buildings, townhouses and stand-alone houses and cater to the residential and investment needs of our high-end consumers. We typically develop our boutique upscale residential projects in several phases so that we can manage our capital resources more efficiently and increase the average selling price as the project becomes more developed and attractive to our customers.

As of December 31, 2019, our portfolio of land bank consisted of approximately 61.6% of boutique upscale residences, 29.7% of urban complexes and 8.7% of mid-to-high end residences in terms of GFA. We plan to continue to focus our property development activities on developing a portfolio of products that caters to our target customers across some of China’s most economically prosperous regions. We plan to achieve this objective by continuing to selectively acquire low-cost land in the regions. We conduct comprehensive and in-depth market research and analysis on the land that we intend to acquire and the surrounding areas. We consider the geographic as well as marketing factors when evaluating a target parcel, including development potentials, size and suitability of the land for developments that can fit into our existing portfolio, convenience and availability of infrastructure support, purchasing power of our potential customers in relevant areas, development costs and the estimated return on investment. We budget for the cost of land acquisition as well as the overall

development costs, which are subject to strict internal procedures and are closely monitored and adjusted throughout the construction process. Acquisition proposal is reviewed and approved by the relevant personnel of our Group, including our chief executive officer and our board of directors. We usually acquire land using our own capital within a pre-set budget and arrange project loans with banks in China at a later stage to support the subsequent development of the property.

In addition to our property development business, we also provide property operation services, property agency services and hotel services to our own properties and properties of third parties. In February 2011, we disposed of our entire 85% equity interests in Shenzhen Xingyan Property Consultancy Company Limited (深圳市星彥地產顧問有限公司), our subsidiary engaged in the provision of property agency services, to concentrate on our main business, but we still maintain secondary property brokerage services as a value-added service in the property operation services business. We believe our property related services enable us to strengthen our property development capabilities. For example, our property operation services enhance the value of our properties. In June 2014, Colour Life, one of our subsidiaries focusing on our community services business, was listed on the Hong Kong Stock Exchange as part of our dual funding platforms strategy, which we believe enhanced our capital utilization efficiency and our ability to capitalize on our brand. We plan to continue to enhance such real estate services that we offer and to further enhance the intrinsic synergies between our real estate products and services. We will in particular focus on enhancing our property operation services and hotel services which we believe will serve as relatively stable and growing revenue sources to our Group on one hand, and will continue to increase the attractiveness and the average selling price of the properties developed by us on the other.

As of December 31, 2019, we had a total land bank of approximately 11.2 million square meters, comprising an aggregate planned GFA of approximately 11.2 million square meters of properties for which we had fully paid the land premium and obtained land use rights (consisting of an aggregate planned GFA of approximately 7.3 million square meters of properties under development and an aggregate planned GFA of approximately 3.9 million square meters of properties held for future development for which we have obtained land use rights).

Of our total land bank as of December 31, 2019, approximately 6.2 million square meters, or 55.4%, were located in the Chengdu-Chongqing Metropolitan Area; approximately 1.0 million square meters, or 8.9%, were located in the Guangdong-Hong Kong-Macao Greater Bay Area; approximately 1.3 million square meters, or 11.6%, were located in the Yangtze River Delta Metropolitan Area; approximately 1.3 million square meters, or 11.6%, were located in the Bohai Rim Metropolitan Area; approximately 1.4 million square meters, or 12.5%, were located in Central China Metropolitan Area. We develop most of our properties, including properties that are currently under development, for sale but will hold certain of these developed properties for investment and hotel management purposes.

For the years ended December 31, 2017, 2018 and 2019, our revenue was RMB9,782.6 million, RMB13,986.1 million and RMB19,081.6 million (US\$2,731.9 million), respectively. Our revenue consisted of revenue derived from (i) the sales of our developed properties, (ii) the lease of investment properties, (iii) the provision of property agency and related services, (iv) the provision of property operation and related services, and (v) the provision of hotel management and related services. The following table sets forth our revenue for each of the components described above and the percentage of total revenue represented for the periods indicated with the fluctuations of the percentage due primarily to the different product mix delivered to customers in respective period:

	For the year ended December 31,						
	2017		2018		2019		
	(RMB)	(%)	(RMB)	(%)	(RMB)	(US\$)	(%)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in thousands, except percentages)						
Property development	6,598,470	67.5	8,554,508	61.2	13,226,346	1,899,846	69.3
Property investment	243,187	2.5	252,509	1.8	199,778	28,696	1.0
Property agency services	57,967	0.6	129,666	0.9	94,332	13,550	0.5
Property operation services	2,015,378	20.6	4,157,566	29.7	4,665,570	670,167	24.5
Hotel services	134,033	1.4	135,700	1.0	123,478	17,737	0.6
Others	733,533	7.5	756,184	5.4	772,073	110,901	4.0
Total	<u>9,782,568</u>	<u>100.0</u>	<u>13,986,133</u>	<u>100.0</u>	<u>19,081,577</u>	<u>2,740,897</u>	<u>100.0</u>

As of December 31, 2019, Colour Life managed a total GFA of over 562.0 million sq.m. For the year ended December 31, 2019, the revenue of Colour Life and its subsidiaries (together, the “Colour Life Group”) accounted for approximately 20.2% of our total revenue. The Colour Life Group has become increasingly important for us to withstand economic cycle risks and achieve stable profits.

Our Competitive Strengths

Property development portfolio strategically located across some of China’s most economically prosperous regions

We focus our business activities across some of the most economically prosperous and vibrant regions in China, namely, the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China. Each of the regions has experienced relatively strong growth over the past few years. As of December 31, 2019, our planned GFA under development and held for future development in each of the Chengdu-Chongqing Metropolitan Area, the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta Metropolitan Area, the Bohai Rim metropolitan region and Central China Metropolitan Area was approximately 6.2 million square meters, 1.0 million square meters, 1.3 million square meters, 1.9 million square meters and 1.3 million square meters, respectively. We have already established a strong market position in certain of our targeted regions, such as in the Chengdu-Chongqing Metropolitan Area and the Guangdong-Hong Kong-Macao Greater Bay Area, and several of our developments in those regions received various awards. We believe that a significant portion of our target customers operate and reside in these regions, and our location and presence in these regions have enabled us to capture the growing demand of our target customers.

Ability to acquire land at low cost

In 2017, our average unit land cost based on GFA was approximately 20.6% of our average unit selling price. We focus on developing urban complexes in the peripheral areas of existing central business districts or emerging new business districts and boutique upscale residences in the urban and suburban areas. As a result, we have a wide range of choices when selecting land sites for our property developments than other property developers who focus on developing properties in existing central business districts or well-established residential areas in major cities. We believe our wide range of choices of land sites allows us to avoid intense competition in the land acquisition process and thereby reduces our average land acquisition costs. In addition, we believe our ability to acquire land at low cost is also attributable to our flexible property development capabilities that have enabled us to develop a wide variety of land and properties. We believe our operating flexibility as to the size and location of the land that we can develop enables us to take the opportunity presented to us to acquire land at low cost. We conduct research and analysis and try to identify the future growth potential of a land site for our property development before our competitors start doing the same so as to avoid price competition. Such approach to land selection and evaluation has also contributed to our ability to acquire land at

relatively low cost. We believe our ability to acquire high quality land at a relatively low cost allows us to use our working capital more efficiently, maintain a healthy profit margin and respond more effectively to changing market conditions.

Strong business model with track record of success

We have a strong property development capability to develop a wide range of properties in different regions. We target affluent middle- to upper-class individuals and families and fast-growing small- to medium-sized enterprises. We focus our development capabilities on urban complexes and boutique upscale residences to meet the demand of our target customers. We have replicated our success in various markets in China while continuing to quickly and effectively develop a diverse range of high-quality properties to satisfy the requirements of our target customers in various markets in China. For example, we have successfully developed urban complexes such as Chengdu MIC Plaza (formerly known as Chengdu Meinian International Plaza, 成都美年國際廣場) and Tianjin Future Plaza (天津香年廣場), and boutique upscale residences such as Guilin Lakeside Eden (麓湖國際社區), Suzhou Lago Paradise (蘇州太湖天城) and Dongguan Mont Conquerant (東莞君山), some of which are award-winning properties. We believe our capabilities to develop quality products provide us with significant leverage for our future business growth.

Well-known brand name

We believe we have established a strong brand name in the property market in China. We have focused our property development efforts on developing a portfolio of properties as well as providing real estate services that cater to the diverse needs of our targeted customers. We believe these efforts have allowed us to achieve a strong track record in the sale of our properties. We have also focused on developing properties with a distinctive design or with features that can help to raise our company profile. We have worked closely with leading domestic and international architecture and design firms to achieve such goal. As a result, we have received numerous accolades for our property development and service capabilities, as well as for the design of our properties, and have achieved a strong market position in certain of our targeted regions. We believe our customers associate our brand image with high-quality and customer-oriented real estate products and services, as well as the modern and trend-setting design of our properties.

We have also established an annual program named “Happiness Discovery Trip (發現幸福之旅) (“Happiness Discovery Trip”). Happiness Discovery Trip is a large scale community art activity organized by the Company since 2006, which explores the meaning of “Happiness” within the contemporary Chinese society through artistic creation and exchanges of ideas with the collaboration of a young artist each year. We believe such an effort attaches an artistic and cultural image to our brand and our properties in the mind of our target customers, distinguishing us from our competitors.

Strong value-accretion property development and service capabilities

We believe that our urban complex developments help to foster increased property development activities by others and increased government investment in public infrastructure and services in surrounding neighborhoods and thus facilitate the formation of new urban centers, which in turn increases the value of our developments. We also provide real estate services that consist of property operation services and property agency services. We believe our property operation services enhance the value and attractiveness of our properties, thereby allowing us to increase average selling and rental prices. Our property agency services business allows us to better understand the market place so we can adjust our marketing and pricing strategies to achieve an optimum pricing for our properties. We believe

our real estate services provide us with benefits that cannot be easily replicated by other property developers in China that are not also engaged in the property agency services business, which positions us well in the competitive real estate market in China.

Experienced and stable management team with proven track record supported by seasoned professional employees

The significant growth of our business since our inception is in large part due to our experienced and stable management team. Mr. Pan, our chairman and chief executive officer, and Ms. Zeng, our executive director, each has over 20 years of experience in real estate development in China, and, along with other members of our senior management team and employees, have established strong relationships with key industry participants. We have been able to capitalize on the collective expertise of our management and other professional employees so that we can develop and sell properties that appeal to our targeted customers at various locations. We believe that we have benefited, and will continue to benefit, from our management's extensive experience and knowledge of the PRC property market.

Business Strategies

Continue to expand in fast-growing economic regions in China and selectively acquire low-cost land

We plan to continue to concentrate the growth of our business in some of the economically prosperous regions in China in which we currently operate. We believe each of the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China continues to provide attractive opportunities for property development. We intend to procure more low-cost land in each of these regions by adhering to our disciplined approach. Under such approach, a decision to make a land acquisition is made only after comprehensive in-depth market research and analysis and the completion of strict internal review procedures.

We believe that our property agency services business allows us to better understand the property market in China, to tailor our product offerings that appeal to our targeted customers and to adjust our marketing and pricing strategies to achieve optimum pricing for our properties, an advantage that cannot be easily replicated by property developers that are not also engaged in property agency services business. Going forward, we intend to continue to capitalize on our extensive experience and market knowledge gained from our property agency services business to selectively identify and acquire land for development.

Focus on further improving the intrinsic synergies of our real estate products and value-added services

We intend to focus on realizing increased synergies among our businesses, a crucial part to our Group's overall success. We intend to continue concentrating on developing urban complexes and boutique upscale residences. We believe our focus on these two types of property development projects allows us to better and more efficiently use our resources to address our target customers' needs and develop long-term business relationships. Our development focus also serves to increase the synergies that can be achieved among each aspect of our businesses. We plan to continue to expand our investment property portfolio by including boutique hotels in the properties that we develop, thereby increasing our recurring income as well as increasing the real estate solutions that we provide to customers. We have also established subsidiaries dedicated to providing hotel services, which we believe also helps to enhance the capabilities of our property operation services provided to more traditional properties, as well as to our urban complexes. We plan to continue to enhance cooperation among our businesses. For example, leveraging on our experience and expertise from our property development

business, we have expanded into and plan to continue to expand hotel services and property community services and other value-added property businesses including community finance, business management, cultural tourism, retirement life services and education. In June 2014, Colour Life, one of our subsidiaries dedicated to provide our community services, listed on the Hong Kong Stock Exchange through an initial public offering, which we believe enhanced our capital utilization efficiency and ability to capitalize on our brand. We continue to evaluate our business model and strive to optimize our business portfolio, and may further restructure certain businesses that are related, ancillary or complementary to our property development business including, among others, our commercial property management, hotel management, financial leasing, community P2P financial business, retirement life services and educational consultancy businesses through an initial public offering of the shares of a subsidiary engaged in such businesses, depending on market conditions. As of the date of this offering memorandum, there is no definite timetable or execution plan with respect to such restructuring, and such restructuring may or may not materialize. We expect that our efforts should allow us to increase the breadth and stability of our revenue streams, reduce our overall exposure to volatility within and reliance on one sector of the real estate property industry and create cross-selling opportunities.

Continue to improve our property operation service and hotel service capabilities to further increase the attractiveness and value of our properties

Our property operation services are an important part of our business and serve a critical role in enhancing the value and environment of our developments, which in turn increases the rental income and the average selling price of our properties. In early 2011, we commenced to reorganize our property operation services business and since then, have been providing property operation services through our subsidiary Colour Life and its subsidiaries. We have designated “Colour Life” as our brand for middle-to-high end property management and property community services. We intend to continue to strengthen our property operation services and strive to offer the highest level of services to tenants and residents and to achieve customer satisfaction.

We started our hotel service business in 2008 by establishing our own hotel management companies. We have entered into agreements with third party international professionals to operate and manage one of our boutique hotels under development. We believe such agreements will allow us to be exposed to the inner workings of operating and managing a boutique hotel and refine the level of hotel services that we provide. In addition, we believe as our hotel services continue to strengthen, the capabilities of our property operation services will also be enhanced as well. Our goal is to establish high quality and distinctive hotel services and further improve our property operation services. We intend to continue to improve the internet information platform of our property operation services to offer additional value-added services such as online payment options, customized online services for ordering goods and services and accessing real estate market information or brokerage listings. Furthermore, we intend to actively work to expand GFA under management, as well as enhance the capabilities of our building and equipment installation, maintenance and repair services. Finally, we seek to continue to improve the membership program we offer for purchasers of our properties, the Fantasia Club, by providing greater support for and better communication with our purchasers. Continuing to enhance the quality and offering of our property operation services will also serve us well in strengthening our relationships with our key clients and increasing potential referrals among our target customers.

Continue to promote our brand names

We place significant emphasis on developing our brand image and will continue to introduce real estate products and service offerings that will enhance our profile, reputation and image. We have worked closely with leading domestic and international architecture and design firms, such as Shenzhen Cube Architecture Design Office, China Southwest Architectural Design and Research Institute Corp.

Ltd., AECOM, Earth Asia Design Group (Shanghai) Co., Ltd., RTKL Associates Inc., Kengo Kuma and Associates, Kenneth Ko Designs Ltd., Steve Leung Designers Ltd., PAL Design Consultants Ltd. and Woods Bagot Asia Limited in creating products that reflect the spirit and essence of our vision and assimilate the latest trends and elements, and will continue to do so in the future.

We intend to continue to employ strict quality control standards and to closely monitor the product quality and the workmanship of our contractors throughout the development process. We also plan to continue to actively participate in the selection of the materials used in our projects in order to achieve desired quality levels and to maintain a cohesive brand image for our properties. In addition, we intend to continue to rigorously monitor and protect our trademarks that we consider essential to our brand image. We will also continue our annual program, Happiness Discovery Trip, to further foster customer awareness as to the artistic and cultural aspects of our brand image. We believe by cultivating a distinctive brand image, we will be able to further enhance our ability to attract our target customers and reinforce such customers' perception of the quality, distinctiveness and comprehensiveness of our products and services.

Recent Developments

Issuance of the January 2020 Notes

On January 9, 2020, we issued 10.8750% senior notes in an aggregate principal amount of US\$450 million, which will mature on January 9, 2023. See "Description of Other Material Indebtedness – January 2020 Notes" for details.

Tender Offer in Relation to the March 2018 Notes

On January 6, 2020, we offered to repurchase for cash up to US\$450 million in aggregate principal amount of the March 2018 Notes. On January 15, 2020, we accepted for purchase part of the March 2018 Notes pursuant to the Tender Offer. Upon the completion of the Tender Offer on January 21, 2020, the March 2018 Notes in the aggregate principal amount of US\$520,001,000 remains outstanding.

Issuance of the June 2020 Notes

On June 1, 2020, we issued 11.875% senior notes in an aggregate principal amount of US\$300 million, which will mature on June 1, 2023. See "Description of Other Material Indebtedness – June 2020 Notes" for details.

Provision of Financial Assistance to Fantasy Pearl International Limited

On July 10, 2020, Fantasy Pearl International Limited, our controlling shareholder as borrower, entered into a facility agreement with the Bank, pursuant to which the Bank agreed to make available to Fantasy Pearl International Limited the Loan in the amount of HK\$335,000,000. In connection with the Loan, on July 10, 2020, our Company and Splendid Fortune, a substantial shareholder of Colour Life, entered into an option agreement under which our Company granted to Splendid Fortune the right to require our Company to purchase the option shares of Colour Life which represented approximately 15.3% of the issued share capital of Colour Life as at the date of the option agreement, at the consideration of HK\$335,000,000. As security for the Loan, Splendid Fortune has assigned all of its rights under the option agreement to the Bank.

Issuance of the July 2020 Notes

On July 28, 2020, we issued 9.25% senior notes in an aggregate principal amount of US\$350 million, which will be fully repayable by July 28, 2023. See "Description of Other Material Indebtedness – July 2020 Notes" for details.

COVID-19 Pandemic

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Several cities in China where we have significant land bank and operations had imposed travel restrictions in an effort to curb the spread of the highly infectious COVID-19. The COVID-19 outbreak has affected our business operation and financial condition. During the three months ended March 31, 2020, our revenue and contracted sales declined as compared to the corresponding period in the prior year due to the impact of COVID-19. However, the PRC central and local governments have taken various measures to manage cases and reduce potential spread and impact of infection, and further introduced various policies to boost the economy and stimulate the local property markets. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. The outbreak is however far from over, and in different countries, is showing signs of resurgence and further waves of infections are recorded everyday. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will persist and to what extent to which we may be affected. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected. See “Risk Factors—Our results of operation, financial condition and cash flow may be adversely and materially affected by the COVID-19 pandemic.”

Our Property Development Projects

Overview

As of December 31, 2019, we had 65 property development projects or phases of projects at various stages of development. Based on the stage of development, we divide our property development projects into three categories:

- completed projects, comprising properties for which we have received the requisite completion inspection report from the relevant government construction authority;
- projects under development, comprising properties for which we have obtained the requisite construction works commencement permits but are yet to receive the requisite completion inspection report; and
- projects held for future development, comprising properties for which we have obtained the relevant land use rights certificates and started preliminary design work but have not yet received the required construction works commencement permits, as well as properties for which we have not obtained the land use rights certificates but have entered into contractual agreements to obtain the relevant land use rights certificates and started preliminary design work.

For development projects that are comprised of multiple-phase developments on a rolling basis, each phase is considered individually and classified as completed, under development or for future development, depending on whether the relevant completed construction work certified report or the required construction works commencement permit has been obtained for such phase.

We calculate the site area of our projects or phases as follows:

- for projects or phases for which we have obtained land use rights, based on the relevant land use rights certificates, and

- for projects or phases for which we have not obtained land use rights, based on the relevant contractual agreements.

We calculate the total GFA of our projects or phases as follows:

- for projects or phases that are completed, based upon relevant property surveying reports;
- for projects or phases that are not completed but for which pre-sale has commenced, based upon relevant inspection reports required for pre-sale;
- for projects or phases that are under development and for which we have not obtained relevant inspection reports but have obtained the relevant construction works planning permits, based on such construction works planning permits; and
- for projects or phases for which we have not received the relevant construction works planning permits, based on the total GFA indicated in property master plans approved by relevant government authorities or based on our internal records and development plans, which may be subject to change.

We calculate the site area and the total GFA for each phase in a project based on our own internal records and estimates except in circumstances where such information for a particular phase is contained in the relevant land use rights certificate, construction works planning permit, or completion inspection report.

Total GFA as used in this offering memorandum is comprised of saleable GFA and non-saleable GFA. Saleable GFA as used in this offering memorandum refers to the internal floor areas exclusive of non-saleable GFA. Non-saleable GFA as used in this offering memorandum refers to certain communal facilities and ancillary facilities, such as certain underground GFA and spaces for local community management committees and public security offices. Saleable GFA is divided into saleable GFA sold or pre-sold and saleable GFA unsold. A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. The property is delivered to the customer upon the property being completed, inspected and accepted as qualified. Properties are pre-sold when we have executed the purchase contract but have not yet delivered the properties to the customer. Saleable GFA unsold is further divided into GFA unsold and held for sale and GFA unsold and held for investment.

We calculate the saleable GFA for our projects or phases as follows:

- for projects or phases that are completed, based on the saleable GFA as determined upon relevant property surveying reports;
- for projects or phases that have not received the completion inspection report upon completion but have obtained the relevant inspection reports required for pre-sale, based on the saleable GFA in such relevant inspection reports;
- for projects or phases that have not received the relevant inspection reports required for pre-sale but have received relevant construction works planning permits, based on the construction works planning permits; and

- for projects or phases that have not received relevant construction works planning permits, based on the total GFA indicated in property master plans approved by relevant government authorities or based on our internal records and development plans, which may be subject to change.

Furthermore, the following information that appears in this offering memorandum is also based on our internal records and estimates: (i) saleable GFA sold or pre-sold, saleable GFA unsold, saleable GFA unsold and held for sale, saleable GFA unsold and held for investment, and (ii) information regarding expected completion and pre-sale commencement date and number of residential units, office space, commercial units and car parking spaces.

During the three-year period ended December 31, 2019, we did not terminate or void any purchase contracts due to delay in delivering properties to our customers based on the time frame set forth in the respective contracts. In addition, development costs for each of our projects were within their respective budgets during such period.

The following table sets forth information as to the site area and the GFA in square meters for each of our property development projects or its respective phases and its completion date or expected completion as of dates indicated:

Projects Under Construction

As of December 31, 2019, we had 34 projects or phases of projects under construction, with a total planned GFA of 7,329,300 sq.m.

Breakdown of projects under construction as at December 31, 2019

<u>Project serial number</u>	<u>Project name</u>	<u>Project location</u>	<u>Nature of land</u>	<u>Company's interest</u>	<u>Expected completion date</u>	<u>GFA under construction</u> (sq.m.)
Guangdong-Hong Kong-Macao Greater Bay Area						
1	Shenzhen Jiatianxia	Dapeng New District, Shenzhen	Residential and commercial land use	10%	Completion by phases between 2020 and 2021	262,930
2	Huizhou Huahaoyuan	Huiyang District, Huizhou	Residential and commercial land use	100%	2020	80,396
3	Huizhou Jiatianxia	Huiyang District, Huizhou	Residential and commercial land use	100%	2020	241,091
Chengdu-Chongqing Metropolitan Area						
4	Chengdu Grande Valley	Pujiang County, Chengdu	Residential land use	70%	Completion by phases between 2020 and 2021	341,246
5	Chengdu Dragon Era International Center	Pidu District, Chengdu	Commercial land use	100%	2020	63,449
6	Chengdu Xiangmendi (southern zone)	Pidu District, Chengdu	Residential and commercial land use	100%	2020	353,631
7	Chengdu Xiangmendi (western zone)	Pidu District, Chengdu	Residential and commercial land use	50%	2021	109,662
8	Chengdu Zhihui City	Chongzhou, Chengdu	Residential and commercial land use	80%	Completion by phases between 2020 and 2021	707,510
9	Chengdu Kanjinzhao	Xinjin County, Chengdu	Residential and commercial land use	100%	2021	134,060
10	Chengdu Jiatianxia	Shuangliu District, Chengdu	Residential and commercial land use	55%	Completion by phases between 2020 and 2021	724,672
11	Chengdu Qingbaijiang Jiangshan	Qingbaijiang District, Chengdu	Residential and commercial land use	100%	2021	251,486
12	Ziyang Love Forever	Yanjiang District, Ziyang	Residential and commercial land use	91%	2020	241,227
13	Kunming Lakeside Eden	Taiping New Town, Kunming	Residential land use	63%	Completion by phases between 2020 and 2021	285,771
14	Land I of Guilin Lakeside Eden	Lingui District, Guilin	Residential and commercial land use	70%	Completion by phases between 2020 and 2022	392,930
15	Land H of Guilin Lakeside Eden	Lingui District, Guilin	Residential and commercial land use	100%	Completion by phases between 2021 and 2022	248,680
16	Land D2 of Guilin Lakeside Eden	Lingui District, Guilin	Residential and commercial land use	70%	2022	135,493
17	Land F of Guilin Lakeside Eden	Lingui District, Guilin	Residential and commercial land use	70%	2020	121,770
Central China Metropolitan Area						
18	Wuhan Guanggu Love Forever	Gedian Development District, Wuhan	Residential and commercial land use	10%	2020	191,939
19	Wuhan Huahaoyuan	Jiang'an District, Wuhan	Residential and commercial land use	100%	2021	190,902
20	Wuhan Gedian Jianshan	Gedian Hi-tech District, Wuhan	Residential and commercial land use	100%	2022	268,668
21	Wuhan Hankou Xingfu Wanxiang	Jiang'an District, Wuhan	Commercial land use	30.6%	2020	52,152
22	Wuhan Blue Sky	Dongxihu District, Wuhan	Residential and commercial land use	55%	2021	184,809
Yangtze River Delta Metropolitan Area						
23	Lishui Jiatianxia	Lishui Economic Development District, Nanjing	Residential and commercial land use	100%	2020	316,507
24	Nanjing Gaochun Love Forever	Gaochun District, Nanjing	Residential and commercial land use	100%	2020	165,801
25	Hangzhou 360 Project	Gongshu District, Hangzhou	Industrial land use	49%	2021	233,911
26	Suzhou Oriental Bay (Taihu Tiancheng)	Taihu National Tourism Vacation Zone, Suzhou	Residential land use	43%	2020	137,381
27	Cixi Seasonal Mansion Project	Cixi, Ningbo	Residential land use	11%	2020	253,594
28	Shanghai Guobang Garden	Xuhui District, Shanghai	Commercial land use	100%	2020	6,627
Bohai Rim Metropolitan Area						
29	Tianjin Jiatianxia	Wuqing District, Tianjin	Residential land use	60%	Completion by phases between 2020 and 2021	326,792
30	Tianjin Love Forever	Wuqing District, Tianjin	Residential land use	60%	2021	49,804
31	Tianjin Jinshanghua (originally known as Tianjin Nanhu Project)	Wuqing District, Tianjin	Residential land use	100%	2021	129,086
32	Baoding Mancheng	Mancheng District, Baoding	Residential land use	51%	2021	64,525
33	Zhangjiakou Xingfu Wanxiang (originally known as Zhangjiakou Huailai Project)	Huailai County, Zhangjiakou	Commercial service land use	55%	2021	38,039
Overseas						
34	Parkwood Collection	Singapore	Residential land use	40%	2021	22,759

Projects Held for Development

As of December 31, 2019, we had 19 projects or phases of projects held for development, with a total planned GFA of 3,927,570 sq.m.

The breakdown of projects held for development as of December 31, 2019

Project serial number	Project name	Project location	Nature of land	Company's interest	GFA of projects held for development (sq.m.)
Guangdong-Hong Kong-Macao Greater Bay Area					
1	Pingshan Good Time (Formerly known as Phase 1 of Pingshan World Plastic Plant Project)	Pingshan District, Shenzhen	Residential and commercial land use	50%	335,071
2	Huizhou Kangcheng Siji	Zhongkai District, Huizhou	Residential and commercial land use	100%	76,259
3	Huizhou Jiatianxia	Huiyang District, Huizhou	Residential and commercial land use	100%	33,317
Chengdu-Chongqing Metropolitan Area					
4	Chengdu Grande Valley	Pujiang County, Chengdu	Residential land use	70%	594,777
5	Chengdu Mont Conquerant	Xinjin County, Chengdu	Residential and commercial land use	100%	130,642
6	Chengdu Qingbaijiang Jiangshan	Qingbaijiang District, Chengdu	Residential and commercial land use	100%	213,152
7	Ziyang Love Forever	Yanjiang District, Ziyang	Residential and commercial land use	91%	283,468
8	Kunming Lakeside Eden	Taiping New Town, Kunming	Residential land use	63%	677,202
9	Lands G and A2 of Guilin Lakeside Eden	Lingui District, Guilin	Residential and commercial land use	100%	189,337
Central China Metropolitan Area					
10	Wuhan Hanzheng Street	Qiaokou District, Wuhan	Residential and commercial land use	34.5%	329,914
11	Wuhan Jinshanghua	Jiang'an District, Wuhan	Residential and commercial land use	100%	60,368
12	Phase II of Jin Xiu Town	Hongshan District, Wuhan	Residential and commercial land use	50.1%	111,883
Yangtze River Delta Metropolitan Area					
13	Suzhou Taihu Tiancheng	Taihu National Tourism Vacation Zone, Suzhou	Hotel land use	100%	73,691
14	Hangzhou Bay Jingcheng Mingshi	Hangzhou Bay New District, Ningbo	Residential land use	90%	76,769
Bohai Rim Metropolitan Area					
15	Tianjin Love Forever	Wuqing District, Tianjin	Residential land use	60%	13,027
16	Tianjin Jinshanghua (originally known as Tianjin Nanhu Project)	Wuqing District, Tianjin	Residential land use	100%	7,031
17	Tianjin Yingcheng Lake Project	Hangu District, Tianjin	Residential, tourism and commercial land use	100%	168,339
18	Zhangjiakou Xingfu Wanxiang (originally known as Zhangjiakou Huailai Project)	Huailai County, Zhangjiakou	Commercial service land use	55%	489,583
19	Shijiazhuang Linghang Guoji	Yuhua District, Shijiazhuang	Commercial land use	51%	63,740

Land Bank

During the Period, we continued to adhere to its prudent investment strategy and its development direction of acquiring land in first-tier cities, such as Chengdu, Wuhan, Hangzhou, Ningbo, Kunming and Shijiazhuang, which enjoy strong market potential and capable of delivering rich returns. As of December 31, 2019, the planned GFA of the Group's land bank amounted to 11,256,870 sq.m..

LAND BANK DETAILS

Region	Projects under construction	Projects held for development	Aggregate GFA of land bank
	<i>(sq.m.)</i>	<i>(sq.m.)</i>	<i>(sq.m.)</i>
Guangdong-Hong Kong-Macao Greater Bay Area	584,417	444,647	1,029,064
Shenzhen	262,930	335,071	598,001
Huizhou	321,487	109,576	431,063
Chengdu-Chongqing Metropolitan Area	4,111,587	2,088,578	6,200,165
Chengdu	2,685,716	938,571	3,624,286
Ziyang	241,227	283,468	524,695
Kunming	285,771	677,202	962,973
Guilin	898,873	189,337	1,088,210
Central China Metropolitan Area	888,470	502,165	1,390,635
Wuhan	888,470	502,165	1,390,635
Yangtze River Delta Metropolitan Area	1,113,821	150,460	1,264,281
Nanjing	482,308	–	482,308
Hangzhou	233,911	–	233,911
Suzhou	137,381	73,691	211,072
Ningbo	253,594	76,769	330,363
Shanghai	6,627	–	6,627
Bohai Rim Metropolitan Area	608,246	741,720	1,349,966
Tianjin	505,682	188,397	694,079
Baoding	64,525	–	64,525
Shijiazhuang	–	63,740	63,740
Zhangjiakou	38,039	489,583	527,622
Overseas	22,759	–	22,759
Singapore	22,759	–	22,759
Total	7,329,300	3,927,570	11,256,870

The classification of properties in this offering memorandum is different from the classification of properties in the consolidated financial statements included in this offering memorandum.

Some of the information contained in the above table and the following descriptions of the individual projects and elsewhere in this offering memorandum may differ from our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum because, among other things:

- properties that have been sold are not included in the consolidated statements of financial position and the notes thereto;
- saleable GFA unsold under our classification only include saleable GFA that have not been sold or pre-sold while “completed properties for sale” as used in our consolidated financial statements and the notes thereto, which is recorded under “properties for sale” on the consolidated statements of financial position, include properties that have not been contracted to be sold and properties pre-sold but have not been delivered to customers; and

- “properties for sale” and “investment properties” as recorded on our consolidated statements of financial position and the notes thereto include “completed properties for sale,” “properties under development,” “completed investment properties” and “investment properties under development” which include all properties that we classify as projects or phases under development whether we intend to hold such properties for sales or for investment after completion.

The table below sets forth our classification of properties and the corresponding classification of properties in our consolidated financial statements and the notes thereto contained in this offering memorandum:

<u>Types of Properties</u>	<u>offering memorandum</u>	<u>Consolidated financial statements</u>
<ul style="list-style-type: none"> • Properties for which we have received the completed construction works certified report from the relevant government construction authorities 	<ul style="list-style-type: none"> • Completed projects 	<ul style="list-style-type: none"> • Completed properties for sale (excludes completed properties that have been sold) • Completed investment properties
<ul style="list-style-type: none"> • Properties for which we have obtained the required construction works commencement permits but are yet to receive the completed construction works certified report 	<ul style="list-style-type: none"> • Properties under development 	<ul style="list-style-type: none"> • Properties for sale – Under development • Investment properties under development
<ul style="list-style-type: none"> • Properties for which we have obtained the relevant land use rights certificates and started preliminary design work but have not yet received the required construction works commencement permits 	<ul style="list-style-type: none"> • Future development projects – land use rights obtained 	<ul style="list-style-type: none"> • Properties for sale – Under development • Investment properties under development
<ul style="list-style-type: none"> • Properties for which we have not obtained land use rights certificates but have entered into contractual agreements to obtain the relevant land use rights certificates and started preliminary design work 	<ul style="list-style-type: none"> • Future development projects – property rights to be acquired and potential new property development projects 	<ul style="list-style-type: none"> • Properties for sale – Under development • Investment properties under development

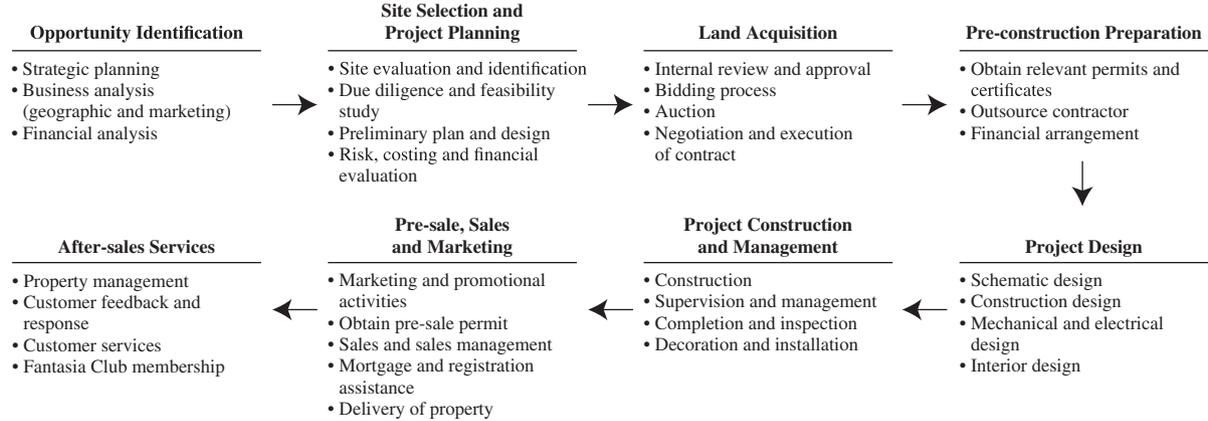
Our Business Segments

Our business includes (i) property development, (ii) property investment, (iii) property operation services, (iv) property agency services and (v) hotel services. Our property operation services include property management services, building equipment installation, maintenance and repair services, information network services and other value-added services such as secondary property brokerage services after our disposal of Xingyan Property Consultancy. Historically, our Group provided dedicated property agency services through Xingyan Property Consultancy, in which we owned an 85% equity interest. Due to the restructuring of the Group’s business and in order for us to focus on our other major segments, we disposed of our entire 85% interest in Xingyan Property Consultancy in February 2011 to an independent third party. Our hotel services include hotel management and operation services. As of December 31, 2019, except as would not result in a material adverse effect to our business, we and our PRC subsidiaries were in possession of all of the relevant approvals and qualification certificates required under PRC laws and regulations in order to conduct our businesses.

Property Development

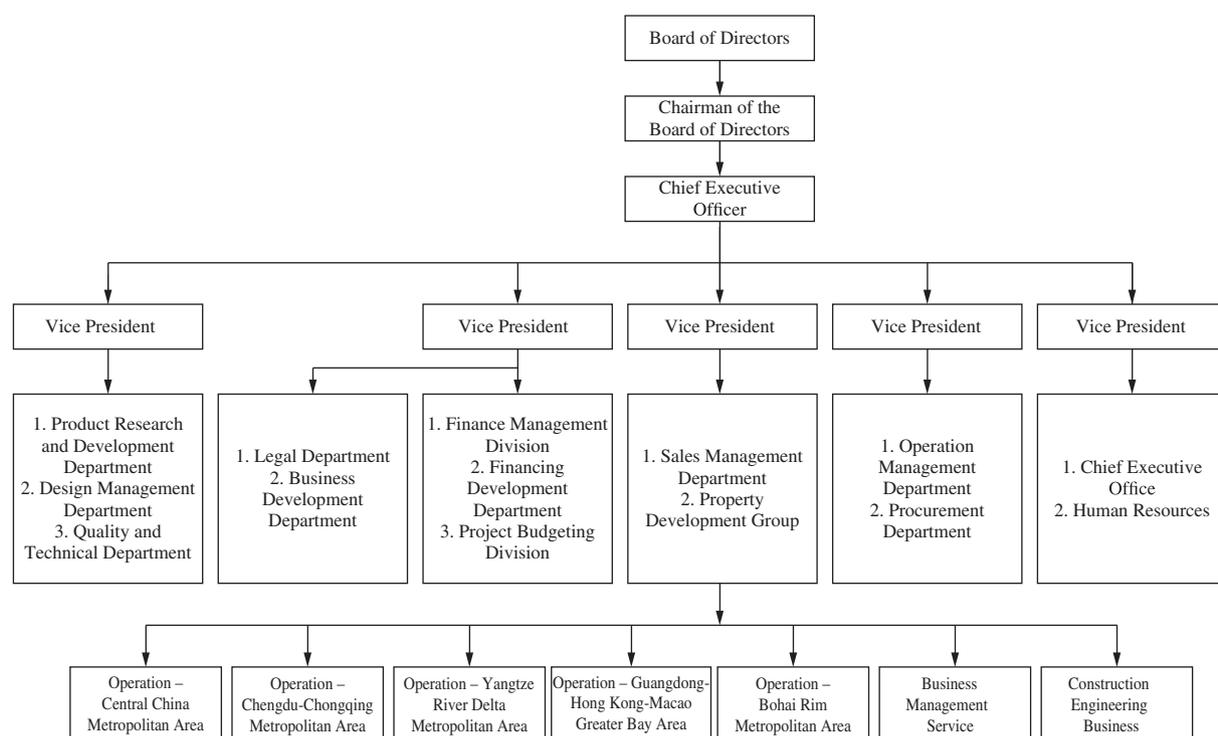
Overview

Although the nature and sequences of specific planning and execution activities will vary among our different property development projects, the core stages typically involved in the development of our properties include opportunity identification, site selection and project planning, land acquisition, pre-construction preparations, project design, project construction and management, pre-sale, sales and marketing, and provision of after-sales services, which are illustrated below:



Project Management

We have established project companies to supervise and manage our property development projects in different cities or regions in China that we believe will best allow us to address the unique market associated with such cities or regions. The senior management of our Group works closely with the senior management of each of our project companies to provide guidance as to the overall strategic directions of our Group as well as to supervise and oversee the activities of each of the project companies. The following chart illustrates the management structure of our Group as of December 31, 2019:



Our project companies have further established specialized divisions to supervise and manage the major stages of our property development activities. The divisions include the construction management division, market planning division, marketing management division, project budgeting division, finance management division and product design division. However, depending on the size and the type of projects, the specialized divisions between each project company may vary and for certain projects, the relevant market research, site selection and other pre-construction, design and construction decisions may be directly carried out by the senior management of the Group or through one of its divisions instead of by the project companies. Our project companies generally enjoy a certain level of autonomy in their daily business operating decisions without the prior approval of the Group's senior management. We believe such autonomy enhances our operating efficiency and allows us to optimize our capacities and resources as well as to leverage on the local knowledge of the management of each project company. However, major operating decisions, such as the purchase of land, the approval of projects for development and financing, are subject to the decision of the Group's senior management. We believe our management structure provides us with the ability to consolidate the resources of the Group to enhance our negotiating powers with certain suppliers and contractors, and facilitate the sharing of expertise among various projects in areas such as design, construction, marketing and sales.

Opportunity Identification

The first stage of our development process involves the identification of new opportunities for forthcoming land auctions or sales in strategic cities or regions in China. Our senior management and our business expansion and development division of our Group determine our strategic direction and our future project development plans. The business intelligence research and development department of our Group also conducts in-depth demographic and market research as to potential cities or regions in China into which we may consider entering. The selection criteria for suitable expansion opportunities are based on certain indicators, including, among others:

- population and urbanization growth rate;
- general economic condition and growth rate;
- disposable income and purchasing power of consumers;
- anticipated demand for residential and commercial properties and office spaces;
- availability of future land supply and land prices;
- cultural heritage of such city;
- local business environment and opportunities;
- availability of qualified personnel in such city or region and the willingness of our existing management personnel to relocate to such city or region;
- governmental urban planning and development policies; and
- overall competitive landscape.

Site Selection

We, through certain divisions of our property development business, are engaged in the research of property market conditions in the Pearl River Delta region, the Chengdu-Chongqing Economic Zone, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China in an effort to identify and assess potential property development opportunities. Before selecting a parcel of land for development, we engage in comprehensive and in-depth market research and analysis to evaluate the market potential and value of the areas surrounding the land and the development potential of the land. Key factors that are considered during our land selection include, but are not limited to:

- size, shape and location of the parcel;
- transportation access and availability of infrastructural support;
- prospects of economic development in the area, government income GDP and social, economic and environmental conditions of the area;
- demand for properties in the relevant area, including pricing potentials;
- existing and potential property developments in the area;

- convenience of the site, such as proximity to the city center, airport, subway and commercial facilities;
- suitability of the site for our products;
- cost, investment and financial return, including cash flow and capital appreciation;
- the status of the land use rights with respect to the targeted site if acquired in the secondary market; and
- government development plans for the relevant site and neighboring area.

Furthermore, during land selection, we also consult with the relevant local authorities as to how the development of the targeted land can fit within the overall development plan of the region, city or area in which the land is located.

Land Acquisition

We follow a strict procedure in the acquisition of properties. Prior to acquiring a property, our business intelligence research and development department, investment management department, legal department, financial management department and certain other departments must all review and approve such proposed acquisition. The proposed project, once vetted and approved by various departments and our chief executive officer, will be submitted to our board of directors for approval. If the proposed project is approved by the board of directors, we will then seek to acquire the land use rights within a pre-set budget.

We have historically obtained our land and will continue to obtain land through (i) acquisition of land use rights through government-organized tender, auction and listing-for-sale; (ii) establishing joint venture project companies; (iii) cooperatively developing projects with third parties; (iv) acquiring target companies which have acquired land use rights themselves; and (v) acquisition of projects under development from third party project companies. In both government bids and purchases in the secondary market, the purchase price typically includes all expenses required to deliver the land use rights.

The Rules regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣挂牌出讓國有土地使用權規定) issued by the Ministry of Land and Resources (the “MLR”), revised on September 21, 2007 and renamed as the Rules regarding the Grant of State- Owned Construction Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣挂牌出讓國有建設用地使用權規定), which came into force on November 1, 2007, provide that state-owned land use rights for commercial use, tourism, entertainment and commodity housing development may be granted by the government only through competitive bidding, auction or listing-for-sale. If land use rights are granted by way of competitive bidding, the relevant land administration authority will issue a bidding announcement, inviting individuals, corporations and other organizations to participate in the tender. When deciding the grantee of the land use rights, the relevant authorities consider not only the tender price, but also the credit history and qualifications of the tenderer and the tender proposal. If land use rights are granted by way of auction, the relevant land administration authority will issue an auction announcement, and the bidders can, at a specified time and location, openly bid for the relevant parcel of land. If land use rights are granted by way of listing-for-sale, the relevant land administration authorities will announce the conditions for granting the land use rights at designated land transaction centers and bidders are invited to submit their bids in writing. The land use rights are granted to the

bidder submitting the highest bid by the end of the listing-for-sale period. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC – D. Development of a Property Project – (i) Land for property development.”

Under current regulations, original grantees of land use rights are typically allowed to transfer the land use rights granted to them provided that (i) the assignment price payable to the relevant government authorities has been fully paid in accordance with the assignment contract and a land use rights certificate has been obtained; and (ii) development has been carried out according to the assignment contract and, (iii) in the case of a project under development, development representing more than 25% of the total investment has been completed. If the land use rights are obtained by way of allocation, such land may be transferable upon approval by the relevant government authority. See “Regulation” for further details. Under current PRC laws and regulations, property development should be started no later than one year from the project commencement date stipulated in the relevant land grant contract and the development of the land should not be suspended for more than one year before we have completed one-third of the total GFA or invested more than one-fourth of the total estimated investment of the project. See “Regulation.”

Pre-Construction

Permits and Certificates

Once we have obtained the rights to develop a parcel of land, we will then begin to apply for the various permits and license that we need in order to begin construction and sale of our properties, which includes:

- land use rights certificate, which is a certification of the right of a party to use a parcel of land;
- construction land planning permit, which is a permit authorizing a developer to begin the survey, planning and design of a parcel of land;
- construction works planning permit, which is a certificate indicating government approval for a developer’s overall planning and design of the project and allowing a developer to apply for a construction works commencement permit;
- construction works commencement permit, which is a permit required for commencement of construction; and
- pre-sale permit, which is a permit authorizing a developer to start the pre-sale of property still under construction.

As of December 31, 2019, we had obtained all the required land use rights certificates and permits for our existing properties under development, taking into account the respective stages of development at such date. In addition, we have obtained all land use rights certificates for our properties that are held for future development. We have also entered into preliminary framework agreements with the local government authorities and relevant third parties related to ten potential new projects located in Shenzhen, Wuhan, Huizhou, Chengdu, Kunming Huizhou, Ningbo, Beijing and Suzhou. We expect to enter into additional agreements related to those one projects in order to obtain the land use rights certificates.

Financing of Property Development

Historically, our main sources of funding for our property development are internal funds, proceeds from pre-sales and sales of properties and borrowings from banks and other financial institutions. Our financing methods vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies. See “Regulation – I. Legal Supervision Relating to the Property Sector in the PRC.”

Since June 2003, commercial banks have been prohibited under PBOC guidelines from advancing loans to fund the payment of land premium. As a result, property developers may only use their own funds to pay for land premium. In the past, we typically financed the acquisition of land reserves from internal funds and proceeds from the pre-sale of properties, while our property development costs, including construction costs and additional financing for existing projects, are typically financed by internal funds, proceeds from the pre-sale of properties and project loans from PRC banks.

During the three years ended December 31, 2019 all of our payments of land premiums have been funded by internal funds and proceeds from the pre-sales of properties and equity and debt financing (other than project loans from PRC commercial banks). We typically use internal funds, proceeds from pre-sales and loans from PRC commercial banks to finance the construction costs for our property developments. From time to time, we also seek to obtain further funding to finance our project developments by accessing the international capital markets. We plan to use bank borrowings, internal funds, proceeds from the pre-sales and sales of our properties, and other cash generated from our operation to finance our future payments of property developments.

Design

In order to provide our customers with distinctive designs and also to achieve operating efficiency, we outsource the design of substantially all of our property development projects to third party domestic or international architecture and design firms. We have worked closely with leading domestic and international architecture and design firms, such as Shenzhen Cube Architecture Design Office, China Southwest Architectural Design and Research Institute Corp. Ltd., AECOM, Earth Asia Design Group (Shanghai) Co., Ltd., RTKL Associates Inc., Kengo Kuma and Associates, Kenneth Ko Designs Ltd., Steve Leung Designers Ltd., PAL Design Consultants Ltd. and Woods Bagot Asia Limited. Our product design divisions are responsible for selecting third-party architecture and design firms, taking into consideration their reputation, proposed designs and their past relationship with us. From time to time, we also engage in a tender process in which the architecture and design firms submit proposals which we determine whether they can be translated into commercially viable projects. Our product design divisions supervise and provide the third-party architecture and design firms with certain directions and design criteria in which we aim to market our property development projects. In addition, our product design divisions work closely with the architecture and design firms in major aspects of the design process, from master planning, design specifications and adjustments, raw material selection, to ensuring that the designs are in compliance with local regulations. Our product design divisions monitor closely the work of the architecture and design firms to ensure that the project designs meet our specifications and work together with our project directors and our construction management divisions to ensure that any problems encountered with the proposed design during construction are resolved in a timely manner.

Project Construction and Management

Construction and Procurement

We outsource our project construction activities entirely to independent third-party contractors and subcontractors. To ensure the smooth cooperation between third-party contractors and us and high quality of construction work, we usually invite contractors to participate in a tender process. When selecting contractors, we consider the contractors' reputation, past performance, work quality, proposed delivery schedules, costs and current project type and profile and seek to maintain our construction costs at a reasonable level without sacrificing quality.

Our construction contracts are typically fixed price contracts that, except for certain provisions relating to the procurement of construction materials, provide for periodic payments during construction until a specified maximum percentage of the total contract sum is paid upon the completion of quality inspection. We generally retain a small portion of the contract price until the end of the warranty period as specified under the construction contracts to cover any potential expenses incurred as a result of any construction defects. However, under certain circumstances, the construction contracts also provide for bonus payment to the contractors if the construction is completed ahead of schedule. The construction contracts we enter into with construction companies also typically contain warranties with respect to quality and timely completion of the construction projects. We require construction companies to comply with PRC laws and regulations relating to the quality of construction as well as our own standards and specifications. A project director from our project companies is assigned to each project to monitor quality and cost control and construction progress closely during construction. In the event of a delay in construction or unsatisfactory quality of workmanship, we may require the construction companies to pay a penalty or provide other remedies. During the years ended December 31, 2017, 2018 and 2019, we have not experienced delay in construction or unsatisfactory quality of workmanship. In addition, as of December 31, 2019, we had not historically experienced any material disputes with any of our contractors.

A significant portion of the equipment and material used during construction are purchased by the contractors in accordance with the specifications provided by the design plan of the architecture and design firms and us. Certain materials, however, are purchased based on the joint consultation and selection between our contractors and us, such as cement. Furthermore, certain other equipment and materials, such as elevators, interior decoration materials and air conditioning systems, are purchased by us through our construction management divisions. Each transaction is initiated by a purchase order and the suppliers are asked to deliver the supplies to locations specified by the relevant property development projects. Depending on factors such as costs, shipping expenses, convenience, quality and the type of equipment and materials needed for a particular project, each of our construction management divisions may purchase the same equipment and material from different suppliers or may combine to purchase from the same supplier to enhance our negotiating powers.

Quality Control and Supervision

We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations, meet the specified standards and are of a high quality. Each project is assigned a project director with its own project management team, which is comprised of qualified engineers, including civil engineers, electrical engineers and sanitary engineers. Depending on the size and the nature of the project, there could be one or more than one such engineer in a given project. Our project management team perform on-site inspections and supervision on a day-to-day basis so as to ensure the workmanship and the quality of the material used by the contractors. The contractors are also subject to our quality control procedures, including appointment of internal on-site quality control engineers, examination of materials and supplies and on-site inspection. To maintain quality control, we employ strict procedures

for the selection, inspection and testing of the equipment and materials that are purchased. Our project management teams inspect equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. We reject equipment and materials that are below our standards or that do not comply with our specifications. We also engage independent supervisory companies to conduct quality and safety control checks on all building materials and workmanship on site. Finally, prior to handing over a property to a purchaser, our sales and customer service departments, together with our engineers and the relevant property management company, inspect the property to ensure the quality of the completed property.

Pre-sale, Sales and Marketing

We typically conduct pre-sales of our property units prior to the completion of a project or a project phase. Under relevant PRC regulations, we may engage in such preselling activities subject to satisfaction of certain requirements set forth in laws and regulations governing pre-sales of properties. These requirements include:

- the land premium must have been fully paid and the relevant land use rights certificates must have been obtained;
- the required construction works planning permits and the construction works commencement permits must have been obtained;
- the funds contributed to the property developments where property units are pre-sold may not be less than 25% of the total amount invested in a project and the progress and the expected completion date and delivery date of the construction work have been confirmed;
- pre-sale permits have been obtained from the construction bureaus at local levels; and
- the completion of certain milestones in the construction processes or other requirements as specified by the local government authorities.

These mandatory conditions are designed to require a certain level of capital expenditure and substantial progress in project construction before the commencement of pre-sales. Generally, the local governments also require developers and property purchasers to use standard pre-sale contracts prepared under the supervision of the local government. Developers are required to file all pre-sale contracts with local land bureaus and real estate administrations after entering into such contracts. We have complied with all the relevant pre-sale rules and regulations in the past in all material respects. See “Regulation – I. Legal Supervision Relating to the Property Sector of the PRC – E. Transfer and Sale of Property – (ii) Sale of commodity buildings – (a) Permit for Pre-sale of Commodity Buildings.”

Historically, the pre-sale, sales and marketing of our properties were conducted by our marketing management divisions and Xingyan Property Consultancy. Subsequent to the sale of Xingyan Property Consultancy in February 2011, we mainly cooperated with external property agency companies in marketing our projects. These property agency companies work closely with our marketing management divisions to conduct market research and analysis and formulate marketing plans and strategies, which we carefully evaluate and adopt as appropriate. Sales teams of such property agency companies are stationed at our projects’ locations and carry out the actual selling activities, including contract signing and delivery logistics.

After-sales Services

Payment Arrangements

We typically require our purchasers to pay a non-refundable deposit that is typically between 5% and 10% of the purchase price before entering into formal purchase contracts. If the purchasers later renege on the purchase contract, they will forfeit such deposit. Upon executing the purchase contracts, the purchasers are typically required to pay not less than 30% of the total purchase price of the property. If purchasers elect to make a lump-sum payment, the remaining purchase price balance is typically required to be paid no later than three months after the execution of the purchase contracts. Purchasers of our properties, including those purchasing pre-sale properties, may also arrange for mortgage loans with banks. As part of our sales efforts, we will assist our customers in arranging and providing information related to obtaining financing. If the purchasers elect to fund their purchases by mortgages, under current PRC laws and regulations, they may obtain mortgages of up to a maximum of 70% of the purchase price with a repayment period of up to 30 years. However, if the purchase is for a second or subsequent residential property and a bank loan was obtained to finance the purchaser's first property, then such purchaser may only obtain mortgages of up to 40%. For further purchases of properties, there would be continued downward adjustments on the percentage of the purchase price in which such purchaser can obtain a mortgage. In addition, banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan exceeds 50% of the individual borrower's monthly income or if the total debt service of the individual borrower exceeds 55% of such individual's monthly income. Purchasers are typically required to pay the remaining balance of the purchase price that is not covered by mortgages prior to the disbursement of mortgages from the banks. The payment terms of sales and pre-sales of properties are substantially identical. See "Regulation."

In accordance with industry practice, we provide guarantees to banks with respect to the mortgages offered to our purchasers upon requests of the banks. These guarantees are released upon (i) the relevant property certificates being delivered to the banks and completion of the relevant mortgage registrations, or (ii) the settlement of mortgage loans between the mortgagee banks and the purchasers of our projects. As of December 31, 2017 and 2018 and 2019, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB7,296.7 million, RMB9,789.7 million and RMB12,166.6 million (US\$1,747.6 million) respectively, which were approximately 10.6%, 10.4% and 12.7% respectively, of our total assets. The default rates on the repayment of our purchasers against the total guarantees we provided in connection with mortgage loans of our purchasers were negligible during the three-year period ended December 31, 2019. See "Risk Factors – Risks Relating to Our Business – We guarantee mortgage loans provided to our purchasers and may be to the mortgagee banks if our purchasers default on their mortgage loans." We do not conduct independent credit checks and due diligences on our purchasers when providing guarantees but instead rely on the credit checks conducted by the mortgage banks, and will typically require a higher initial payments from purchasers with less than ideal credit histories or purchasers whose mortgage is considered too high as compared to their income. In addition, for certain purchasers that have been delinquent in their other financing obligations, we may refuse to provide such guarantees. We believe that our outstanding guarantees on the mortgage loans of our purchasers are over-secured as we believe the aggregate fair value of the underlying properties exceeds the aggregate amount of outstanding guarantees.

Delivery and Other After-sales Services

In addition to assisting our customers in arranging for and providing information relating to financing, we also assist our customers in various title registration procedures relating to their properties, including assisting them to obtain their property ownership certificates. We offer various communication channels to customers to obtain timely feedback about our products or services. Furthermore, we have established a membership program, the Fantasia Club (花樣會), in which

purchasers of our properties are automatically enrolled. Such membership program provides our members with points when they purchase properties from us or recommend new customers to purchase our properties. In addition, membership points are provided through promotional activities and campaigns that we run from time to time. Membership points are redeemable for gifts or cash. We believe by establishing such membership program, we are better able to establish relationships with our customers and build customer loyalty, solicit customer feedback, generate sales leads and provide our members with a forum to share information relating to our properties and events and activities that are happening within our property communities.

We endeavor to deliver the units to our customers on a timely basis. We closely monitor the progress of the construction of our property projects and conduct pre-delivery property inspections to ensure timely delivery. The time frame for delivery is set out in the purchase contracts entered into with our customers, and we are subject to penalty payments to the purchasers for any delay in delivery caused by us. Once a property development has been completed, it must undergo inspection and receive relevant approvals from local authorities including planning bureaus, fire safety authorities and environmental protection authorities. Thereafter, the construction contractors arrange for final inspection by the property development authority. Within 15 days of the completion of the final inspection, the property developers must file a completion inspection report upon the completion of properties with the relevant property development authority, at which time the property is ready for delivery and we may hand over keys and possession of the properties to our customers. For additional information regarding the process of completion of a property project, please see “Regulation.” During the three-year period ended December 31, 2019, we have completed our construction and delivered the units to our customers based on our development schedule and the time frame for delivery set out in the purchase contracts.

Our Colour Life Group provides both traditional property management services to our properties, including security services, maintenance of properties and facilities and gardening, and modern community value-added services such as online commodity group-buying and delivery, commercial services and community resources integration. We currently provide property management services to substantially all of the properties developed by us. We also provide property management services to properties developed by other developers.

For additional information as to our property management services, see “– Our Property Operation Business – Property Management Services.”

Commitments and Undertakings

Our purchase contracts entered into with our purchasers typically require the properties to meet certain standards and also provide certain warranties to our purchasers. We typically represent or warrant to our purchasers that our properties are constructed in accordance with the current standards of construction and design, have passed quality inspection by the relevant local authorities and all components, equipment and facilities of the properties are performing in accordance with relevant standards. We also provide warranties to our purchasers to cover the foundations, primary structures, designs, roofs, exterior walls, wire, gas and water pipes, lighting and other electrical systems of our properties for a certain number of years in accordance with relevant local requirements and standards of the cities where our properties are located. For example, in Shenzhen, we warrant to our purchasers the foundations and the primary structures and designs of our properties for a term of 50 years, water leakage for roofs and exterior walls for a term of five years, wires and gas and water pipes for a term of two years and lighting and certain electrical systems for a period of six months, provided that the properties and such wires, pipes, lighting and systems are used under normal wear and tear conditions. However, such warranties do not cover damages that are the result of improper usage or changes made to the units or equipment by the unit owners or damages that are caused by force majeure. In special

circumstances, however, we may decide to provide free repair services to our customers for damages that are not covered by our warranties. For example, some of our completed properties in Chengdu suffered minor damages such as cracks on the walls during the major earthquake that struck Sichuan province in China in May 2008. While such damages are not covered by our warranties because the earthquake constitutes *force majeure*, we decided to repair such cracks for our customers at our own cost in order to increase our customer satisfaction and enhance our reputation as a responsible property developer.

Our Property Investment Business

We currently hold certain commercial, industrial and residential units, office spaces, retail shops and car parking spaces, which we consider to be properties held for investment. Such properties are held and managed by us in order to provide us with recurring rental income as well as for capital appreciation potentials. Our investment properties are typically located in prosperous city business areas or areas around city centers as well as in large communities that we develop. In addition, by holding certain properties for lease in the projects that we develop, we believe we have the ability to introduce certain tenants that may potentially increase the attractiveness of our properties. In selecting tenants, we generally consider factors such as the business of the tenant, the attractiveness of such business to the residents or tenants of our properties, competing business in the surrounding area and reputation, among others.

As of December 31, 2019, our total GFA retained for investment amounted to 1,251,933 square meters. The car parking spaces that we hold for investment in Shenzhen contributed an insignificant portion to our total revenue, during the three-year period ended December 31, 2019.

As additional properties are developed, we will continue to hold a certain percentage of our developed properties as investment properties. However, we may also decide to sell such investment properties from time to time when we believe that such sales would generate a better return on investment than through rental or holding for capital appreciation.

As a result of holding investment properties, our profitability may fluctuate substantially due to changes in fair value of our investment properties because certain portion of our net profits were, during the three-year period ended December 31, 2019, and will continue to be, attributable to changes in the fair value of our investment properties. The fair value of our investment properties is likely to fluctuate from time to time in accordance with local real property market conditions and factors that are beyond our control and may decrease significantly in the future.

Our Property Operation Business

Overview

Historically, we conducted our property operation business through certain PRC subsidiaries. In June 2014, we restructured our property operation business through an initial public offering of the shares of Colour Life, a subsidiary of the Colour Life Group. We have designated our subsidiaries within the Colour Life Group as unrestricted subsidiaries in accordance with the indentures governing our various senior notes, and will designate them as unrestricted subsidiaries in accordance with the Indenture.

Colour Life Group is one of the leading property management companies in the PRC. It primarily focus on providing property management services, community leasing, sales and other value added services and engineering services. As of December 31, 2019, GFA under management contracts and consultancy service arrangements reached 562.0 million sq.m. Projects under management cover 279

cities across China. It's community leasing, sales and other services segment primarily provides common area rental assistance, usage fees from online promotion services and leasing information system software, residential and retail units rental and sales assistance, and office sublet and other value-added services. It's engineering services segment primarily provides equipment installation services to property developers and communities. For the year ended December 31, 2019, the revenue of the Colour Life Group accounted for approximately 20.2% of our total revenue. The Colour Life Group has become increasingly important for us to withstand economic cycle risks and achieve stable profits.

Property Management Services

Our property management services are primarily provided by the Colour Life Group and Fantasia Property Management (International) Company Limited. Our Shenzhen Colour Life Services Group Co., Ltd. within the Colour Life Group was recognized as the "2009-2018 (10 Consecutive Years) Top 100 Property Management Companies of China" by China Index Academy and a 2014 Top 100 China Property Management Enterprise (2014中國物業服務百強企業), a recognition that we have received since 2009, as well as a 2012 China Outstanding Property and Service Brand Enterprise (2012中國優秀物業服務品牌企業) and the Largest Community Service Operator (中國最大社區服務運營商), both of which were granted from the China Real Estate Top 10 Research Team (中國房地產Top 10研究組). Fantasia Property Management (International) Company Limited is responsible for the high-end property projects of the Group and has obtained ISO9000, ISO14000 and OHSAS18000 integrated system certifications.

We currently provide property management services to properties developed by us as well as properties developed by other developers. We aim to provide the properties that we manage with comprehensive property management services that range from security services, general maintenance of properties and facilities, gardening and other property management services. We also coordinate with the developers, including our property development project companies, to collect customer feedback and address concerns the customers may have as to the development. We typically provide services to other developers under our own brand name.

The typical property management contracts entered into between us and the owners of the properties, including the properties developed by our Group, set out the scope and the quality requirements of the services to be provided by us and the management fee arrangements. Fees are typically fixed at a pre-determined rate within the price range determined by the relevant local authorities that may not be increased without the prior consent of a majority of the owners of the properties. In addition, the contracts also typically allow us to subcontract some of the services, such as security or cleaning services, to third parties. However, under PRC laws and regulations, the home owners of a residential community of certain scale have the right to change property management companies pursuant to certain procedures. See "Risk Factors – Risks Relating to Our Business – Property owners may terminate our engagement as the provider of property management services."

In addition to conventional property management services, we also provide the owners of certain of the properties developed by our Group with daily housekeeping, travel arrangements and other fee-based services that are similar to those offered in hotels.

As we have gained our reputation for providing high quality property management services, other property management companies have retained us to help them improve the property management services they provide to their clients. We receive a consulting fee in return for the advisory services we provide to such third-party property management companies.

The following table sets forth the total GFA managed by us and total GFA in which we provided advisory services as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	(in thousands of square meters)		
GFA under management	404,269	542,299	550,104
GFA in which advisory services are provided	31,715	11,353	11,925
Total	<u>435,984</u>	<u>553,652</u>	<u>562,029</u>

Building Equipment Installation, Maintenance and Repair Services

Within the Colour Life Group, our PRC subsidiary, Shenzhen Kaiyuan Tongji Building Science & Technology Co., Ltd. (“Shenzhen Kaiyuan”), has the qualifications to engage in the installation, repair and maintenance of building equipment. Shenzhen Kaiyuan currently installs, repairs and maintains certain building equipment of the properties that are managed by us as well as properties developed or managed by others. By having an in-house team of experts who are able to install, repair and maintain building equipment, we believe we are better able to respond to customers’ property servicing needs, reduce building equipment downtime and control installation, maintenance and servicing costs. In addition, by having our own team of experts to provide building equipment installation, maintenance and repair services, we believe we are also better able to control the image and reputation of our properties by being able to respond quickly to repair and maintenance servicing needs as well as strengthen the management services provided by us. Since 2014, in order to be consistent with Colour Life Group’s strategy in phasing out its assets heavy business, Shenzhen Kaiyuan has been gradually reducing its building equipment installation business. Meanwhile, Shenzhen Kaiyuan will continue to enhance its expertise and capabilities in its maintenance and repair services by servicing more properties managed by us or that we provide advisory services to as well as hiring additional personnel when necessary.

Information Network Services

In order to provide a broader range of property operation services, we established a wholly owned subsidiary, Shenzhen Colour Life Network Services Co., Ltd. (“Shenzhen Colour Life Network”) in June 2007, which is aimed at connecting residents or tenants of properties managed by us with third-party vendors through an internally developed internet information platform that provides a variety of value-added services. Such value-added services currently include online ordering for household products, which provide convenience and reduce the costs of household purchases for the residents and tenants due to bulk orders. In addition, we believe such information platform also enhances communication between residents or tenants and the property manager. We aim to continue to improve the information platform and offer additional services such as online payment options or customizable online service orders, as well as integrating its information platform with our own secondary property brokerage information database to provide real estate market information. We believe such large audiences that our information platform reaches will also attract third-party vendors to work with Shenzhen Colour Life Network to provide additional services that will further enhance our offering. Shenzhen Colour Life Network generates revenue through the collection of fees and commissions from vendors that use our information network to offer their products or services.

Secondary Property Brokerage Services

We offer advisory services on choices of properties, accompany potential buyers and tenants on house viewing trips, negotiate price and other terms, provide preliminary proof of title, and coordinate with the notary, the bank and the title transfer agency.

Under applicable PRC law, we are permitted to represent both the seller and the purchaser and are entitled to receive up to 1.5% of the transaction value as sales commission from each side in a secondary real estate sales transaction. We typically represent both the seller and the purchaser in our secondary real estate sales transactions in accordance with customary practice in China. For rental units, we typically charge a one-time commission that is equal to 100% of the contracted monthly rent.

Our Property Agency Business

Historically, our Group provided dedicated property agency services through Xingyan Property Consultancy, in which we owned 85% equity interest. Xingyan Property Consultancy offered three principal types of services: (i) primary property agency services that engage in the selling of properties that we develop as well as properties developed by others, (ii) secondary property brokerage services and (iii) property consulting and advisory services. Due to the restructuring of the Group's business and in order for us to focus on our other major business segments, we disposed of our entire 85% interest in Xingyan Property Consultancy in February 2011 to an independent third party. We maintained secondary property brokerage services as a value-added service in our property operation business.

Our Hotel Services Business

We entered into the hotel industry in 2008 with the establishment of our economy hotel, Cai Yue Hotel, in Shenzhen, managed by our subsidiary, Shenzhen Caiyue Hotel Management Co., Ltd. Since then, we have developed several boutique hotels located within our property projects. We have cooperated with well-known international hotel management groups in managing our hotels. For example, in October 2007, we entered into a supporting and consulting services agreement with C.T.E.W. in which C.T.E.W. provided consulting and technical support services in our development of the boutique hotel in Chengdu Hailrun Plaza (成都喜年廣場), now named Rhombus Fantasia Chengdu Hotel (花樣年•隆堡成都酒店), as well as a hospitality management contract with Rhombus, a subsidiary of C.T.E.W., for Rhombus to manage the hotel, which began trial operation in March 2012 and commenced formal operation in December 2012. We have also entered into agreements with affiliates of Starwood Hotels & Resorts Worldwide, Inc. in relation to development consulting services, system licensing, and hotel operating services for several of our hotels in development. We believe our cooperation with well-known international hotel management groups will help drive the development of our hotel service operations and help build our own professional hotel management team and professional hotel construction team. We have also established our own hotel management subsidiaries, including Shenzhen Fantasia Hotel management Co., Ltd., to manage certain of our boutique hotels, with a view to build boutique hotel brands with unique characteristics. We have established our private boutique brand of "U" hotels with the commencement of operations of our Shenzhen U Hotel in February 2012, and commenced trial operation of another private label "HYDE" hotel located in Chengdu in January 2013, which is a four-star hotel which offers a full range of business and leisure facilities.

In 2012, Rhombus Fantasia Chengdu Hotel was awarded "Top 10 Newly Opened Hotels in China" (中國十佳最新開業酒店大獎) from the 2012 China Hotel Starlight Awards (中國酒店星光大獎). The brand "U Hotel" was awarded 2012 and 2013 China Chained Boutique Hotel Brand with the Most Development Potential" (2012及2013年度中國最具發展潛力精品連鎖酒店品牌) at the 9th Golden Pillow Award of China Hotels (中國酒店金枕頭獎) and the "2013 Most Progressive Hotel Brand" (2013中國最具發展潛力酒店品牌) at the 9th China Hotel Starlight Awards. In April 2015, Arcadia Resort Hotel in Yixing stood out in the Adjudication and Selection of "the Tenth China Hotel Starlight Awards" and was awarded the honour of the "10 Best Travelling and Resort Hotel in China" (中國十佳旅遊度假酒店). In April 2015, the Annual Meeting for Asia Hotel Forum 2015 cum the Award Ceremony of China Hotel Starlight Awards was held in Shanghai, Guilin Lingui Fantasia Four Points by Sheraton stood out among the numerous participating hotels and was awarded the honour of

the “China’s Top 10 New Hotels”(中國十佳新開業酒店). In June 2015, Tianjin Future Plaza project was awarded the government subsidies for RMB100 million building project and the honour of the “Outstanding Property Management in Tianjin”(天津市物業管理優秀項目). In September 2015, our Chengdu Funian project participated in the Adjudication and Selection of the outstanding building project in Chengdu and successfully attained the title of the outstanding building project in Chengdu. Our Longqi Bay project in Shenzhen was awarded the Best Villas of the Year at the 8th China Real Estate Annual Conference in 2016. In February 2016, a hotel management company under Fantasia’s cultural tourism group was awarded the honour of “the Golden Lion award of the Best Hotel Management Company in China”(中國最佳酒店管理公司金獅獎) issued by Golden Leaders’ Federation of International Hotels. In May 2017, Fantasia Cultural Tourism Management Group’s U Hotel Shenzhen was awarded the title of “The Best Boutique Hotel” in Langya Rating in 2017 (2017 年度琅琊榜「最佳精品飯店」) by Shenzhen Hotel Association. In June, Shenzhen Fantasia Hotel Management Co., Ltd was awarded the “Golden Pearl Award” for GHM hotels in 2017 (2017 粵港澳酒店GHM「金珠獎」) by the GHM Hotel General Manager Association. In March 2018, Fantasia Taipei U Hotel was awarded the “Selected Premium Hotels of LN Hotel Alliance” by Agoda. In May 2018, Fantasia Taipei U Hotel was granted the “Environment-friendly Hotel Certification” by Environmental Protection Administration Executive Council, Taipei Municipal Environmental Protection Bureau and Taipei Municipal Tourism Bureau.

The table below sets forth certain information relating to our hotels as of December 31, 2019:

Hotel name	City	Positioning	Actual or estimated hotel floor area (square meters)	Actual or estimated number of rooms	Type of premises	Management Company	Operating progress	Actual or estimated commencement date
Hyde Hotel Yixing	Yixing	Holiday	18,173	220	Self-owned/Leased	Shenzhen Fantasia Hotel Management Company Limited	In operation	October 2010
Hyde Hotel Junshan	Chengdu	Holiday	10,800	68	Self-owned	Shenzhen Fantasia Hotel Management Company Limited	In operation	February 2013
U Hotel Tianjin	Tianjin	Boutique	8,697	122	Self-owned	Shenzhen Fantasia Hotel Management Company Limited	In operation	December 2013
Four Points by Sheraton Guilin Lingui	Guilin	Five-star	28,554	242	Self-owned	Starwood Asia Pacific Hotels & Resort Pte Ltd	In operation	October 2014
Four Points by Sheraton Chengdu Puijiang Resort	Chengdu	Five-star	33,384	276	Self-owned	Starwood Asia Pacific Hotels & Resort Pte Ltd.	In operation	May 2015
U Hotel Taipei	Taipei	Boutique	4,090	58	Self-owned	Shenzhen Fantasia Hotel Management Company Limited	In operation	September 2015
373 Hotel USA	New York	Boutique	1,864	70	Self-owned	Shenzhen Fantasia Hotel Management Company Limited	In operation	April 2014
			124,550	1,253				

Properties Used or Occupied by Us

Our corporate headquarters are located at Block A, Shenzhen Funian Plaza, Intersection of Shihua Road and Zijing Road, Futian Free Trade Zone, Shenzhen 518048, with a GFA of 4,050 square meters. Such property is owned by Shenzhen Fantasia Investment Development Co. Limited, a project development company in which we own 100% equity interest. In addition, we currently own and lease a number of other properties that are used as our offices.

As of December 31, 2019, properties owned and used by us had an aggregate GFA of 111,576 square meters and properties that we leased had an aggregate GFA of 199,945 square meters, with an aggregate GFA of 199,650 square meters located in the PRC and an aggregate GFA of 295 square meters located in Hong Kong. We lease such properties primarily as offices of the local branches of our subsidiaries and staff dormitories of our employees.

Intellectual Property

We place significant emphasis on developing our brand image and resort to extensive trademark registrations to protect all aspects of our brand image. We have registered in the PRC and in Hong Kong the trademarks of “花樣年” and “花樣年FANTASIA” to protect our corporate name in Chinese and English. In addition, we have registered trademarks and trademark registration applications in Hong Kong and the PRC that cover the names of our important subsidiaries and property development projects and services.

We have also registered the domain name of *www.cnfantasia.com* for the website of our Group on the Internet.

Competition

There are many property developers that undertake property development projects in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region, the Beijing-Tianjin metropolitan region and Central China and elsewhere in the PRC. Our major competitors include large national and regional property developers, including local property developers that focus on one or more of the regions in which we operate. We endeavor to further strengthen our leading position in these regions. Our competitors, however, may have a better track record, greater financial, marketing and land resources, broader name recognition and greater economies of scale than us in the regions where we operate.

We also face competition for our real estate services businesses from other real estate service providers in China as well as certain international real estate service providers. Competition in the real estate services business is rapidly evolving, highly fragmented and competitive, and our competitors and competitive factors differ depending on the type of services provided and the geographic market in which we provide such services. Compared to property development, real estate services businesses require a smaller commitment of capital resources and have a relatively lower barrier of entry. Our competitors may have more experience and resources than we have.

For more information on competition, see “Risk Factors – Risks Relating to Our Business – We face intense competition with respect to our property development business, property operation services business, property agency services business and hotel services business.”

Insurance

We do not maintain insurance policies for properties that we have delivered to our customers, nor do we maintain insurance coverage against potential losses or damages with respect to our properties before their delivery to customers. In addition, our contractors typically do not maintain insurance coverage on our properties under construction. Based on industry practice in the PRC, we believe that third-party contractors should bear liabilities from tortious acts or other personal injuries on our project sites, and we do not maintain insurance coverage against such liabilities. The construction companies, however, are responsible for quality and safety control during the course of the construction and are required to maintain accident insurance for their construction workers pursuant to PRC laws and regulations. To help ensure construction quality and safety, we have established a set of standards and specifications to be complied with during the construction process. Furthermore, we engage qualified supervision companies to oversee the construction process. Under PRC laws, the owner or manager of properties under construction bears civil liability for personal injuries arising out of construction work unless the owner or manager can prove that he/she is not at fault. Since we have taken the above steps to prevent construction accidents and personal injuries, we believe that we would generally be able to

demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us. To date, we have not experienced any material destruction of or damage to our property developments nor have any material personal injury-related claims been brought against us.

Our directors believe our insurance policies are adequate and in line with the industry practice in the PRC. However, we may not have sufficient insurance coverage for losses, damages and liabilities that may arise in our business operations. See “Risk Factors – Risks Relating to Our Business – We may suffer losses arising from uninsured risks.”

Employees

As of December 31, 2019, excluding the employees of communities managed on a commission basis, we had 33,431 full time employees. The following table provides a breakdown of our employees by responsibilities as of December 31, 2019:

Management	1,022
Administration	6,135
Accounting	1,427
Human Resources	1,086
Engineering	3,402
Marketing and Sales	4,598
Property, Hotel and Other Management Services	<u>15,761</u>
Total	<u><u>33,431</u></u>

The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee’s qualification, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our determination on salary raise, bonus and promotion. We are subject to social insurance contribution plans organized by the PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay on behalf of our employees monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. We believe the salaries and benefits that our employees receive are competitive in comparison with market rates.

Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We believe our relationship with our employees is good. We have not experienced significant labor disputes which adversely affected or are likely to have an adverse effect on our business operations.

Environmental Matters

We are subject to PRC environmental laws and regulations as well as environmental regulations promulgated by local governments. As required by PRC laws and regulations, each project developed by a property developer is required to undergo an environmental impact assessment, and an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction. When there is a material change in respect of the construction site, scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. During the course of construction, the property developer must take measures to prevent air pollution, noise emissions and water and waste discharge. In addition, as we contract our construction works to independent third-party contractors and pursuant to the terms of the construction contracts, the contractors and subcontractors are required to comply with the environmental impact

assessment and the conditions of the subsequent approval granted by the relevant government authority. During construction, our project directors and project management teams will supervise the implementation of the environmental protection measures.

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

We believe that our operations are in compliance with currently applicable national and local environmental and safety laws and regulations in all material respects. See “Risk Factors – Risks Relating to Our Business – We are subject to potential environmental liability that could result in substantial costs.”

Health and Safety Matters

Under PRC laws and regulations, we, as a property developer, have very limited potential liabilities to the workers on and visitors to our construction sites, most of which rest with our contractors. Under the Construction Law of the People’s Republic of China (中華人民共和國建築法), the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the site, and the subcontractors are required to comply with the protective measures adopted by the main contractor. Under the Environmental and Hygienic Standards of Construction Work Site (建築工地現場環境和衛生標準), a contractor is required to adopt effective occupational injuries control measures, to provide workers with necessary protective devices, and to offer regular physical examinations and training to workers who are exposed to the risk of occupational injuries. To our knowledge, there has been no material non-compliance with the health and safety laws and regulations by our contractors or subcontractors during the course of their business dealings with the Group. During the earthquake that struck Sichuan province in China in May 2008 and in April 2013, neither our Group nor our contractors suffered any loss of lives or injury to our and their respective employees as a result.

In addition, our project directors and project management teams will engage in a weekly safety inspection to ensure the safety of the work environment of our construction sites.

Legal Proceedings

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

REGULATION

I. LEGAL SUPERVISION RELATING TO THE PROPERTY SECTOR IN THE PRC

A. Establishment of a Property Development Enterprise

According to the Law of the People's Republic of China on the Administration of Urban Property (中華人民共和國城市房地產管理法)(the "Urban Property Law") promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and revised in August 2007 and further amended on August 27, 2009 and on August 26, 2019, a property development enterprise is defined as an enterprise which engages in the development and sale of property for the purpose of making profits. Under the Regulations on Administration of Development of Urban Property (城市房地產開發經營管理條例)(the "Development Regulations") promulgated by the State Council on July 20, 1998 and revised in January 2011 and March 2019, and further amended on March 27, 2020, an enterprise which is to engage in development of property shall satisfy the following requirements: (1) its minimum registered capital shall be RMB1 million; and (2) it shall employ at least four full-time professional property/construction technicians and at least two full-time accounting officers, each of whom shall hold relevant qualification certificates. The Development Regulations also stipulate that the local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the amount of registered capital of, and the qualifications of professionals retained by, property development enterprises. The following local regulations apply to our business and operations in the PRC:

- (a) The Regulations on Property Developments of Guangdong Province (廣東省房地產開發經營條例) revised by the Standing Committee of Guangdong Provincial People's Congress on September 22, 1997, which stipulate that the self-funded capital of a property development enterprise in the Guangdong Province shall be at least RMB3 million.
- (b) The Detailed Rules for the Implementation of the provisions on the Administration of Qualifications of Property Developers of Jiangsu Province (江蘇省實施《房地產開發企業資質管理規定》細則) promulgated by the Construction Bureau of Jiangsu Province on April 17, 2012, which stipulate that the minimum registered capital of a property development enterprise established in Yixing City shall be RMB4 million.
- (c) The Forwarding Notice of the Ministry of Construction Regulations regarding the Administration of Qualifications of Property Developers (關於轉發建設部《房地產開發企業資質管理規定》的通知), issued by the Beijing Municipal Commission of Housing and Urban Development Construction on September 4, 2000, which stipulate that the minimum registered capital of a property development enterprise in Beijing shall be RMB10 million.
- (d) There is no local regulation for Yunnan Province specifying more stringent requirements on the amount of registered capital and the qualifications of professionals of a property development enterprise.

Pursuant to the Development Regulations, a developer who aims to establish a property development enterprise should apply for registration with the Administration for Industry and Commerce. The property development enterprise must also report its establishment to the property development authority in the location of the registration authority, within 30 days upon the receipt of its Business License (營業執照).

However, on May 25, 2009, the State Council issued the Notice on Adjusting the Minimum Capital Requirement for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知) and lowered the minimum capital requirement for projects of affordable residential housing and regular commodity residential houses from 35% to 20% and, for other property projects, to 30%.

B. Foreign-Invested Property Enterprises

Pursuant to the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2019) 《外商投資准入特別管理措施(負面清單)(2019年版)》 which was promulgated by MOFCOM and NDRC on June 30, 2019 and became effective on July 30, 2019, the real estate development does not fall within the Negative List for Access of Foreign Investments and the restrictive measures for construction of golf courses and villas are equally applicable to domestic and foreign investment. Xiehe Golf (Shanghai) Company Limited, a domestic company acquired in 2013 by a domestic company established by one of our foreign invested companies, is engaged in the operation of a golf course, the construction and initial operation of which was completed by the original shareholder. Xiehe Golf (Shanghai) Company Limited has completed the registration of changes to its shareholding with the relevant Commerce and Industrial Bureau.

According to the Catalog of Government Verified Investment Projects (2016 Version) promulgated by the State Council on December 12, 2016 and the Administrative Provisions on the Approval and Registration of Foreign-Invested Projects (外商投資項目核准和備案管理辦法) promulgated by NDRC as effective from June 17, 2014 and amended on December 27, 2014, foreign investment in real estate within the restricted category shall be approved by the development and reform authority at provincial level and the other foreign investments in real estate shall be registered with the relevant local authorities.

The Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法)(the "Foreign Investment Law") was promulgated by the SCNPC on March 15, 2019 and came into effect as of January 1, 2020. Simultaneously with the coming into effect of the Foreign Investment Law, each of the Law on Wholly Foreign Owned Enterprises (中華人民共和國外資企業法), the Law on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法) and the Law on Sino-Foreign Contractual Joint Ventures (中華人民共和國中外合作經營企業法) was repealed. According to the Foreign Investment Law, the following investment activities of foreign natural persons, enterprises or other organizations (collectively, "Foreign Investors") directly or indirectly within the PRC shall comply with and be governed by the Foreign Investment Law: (i) the establishment of foreign-invested enterprises in the PRC by Foreign Investors alone or jointly with other investors; (ii) the acquisition of shares, equity, property shares, or other similar interests of Chinese domestic enterprises by Foreign Investors; (iii) any investment in new projects in the PRC by Foreign Investors alone or jointly with other investors; and (iv) other forms of investment prescribed by laws, administrative regulations or the State Council.

On July 11, 2006, the MOC, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly promulgated the Opinion on Regulating the Access to and Management of Foreign Capital in the Property Market (關於規範房地產市場外資准入和管理的意見)(the "Opinion"). The Opinion was amended by the Circular of Adjusting the Policies on the Access to and Management of Foreign Capital in the Proper Market (關於調整房地產市場外資准入和管理有關政策的通知)(the "Circular") on August 19, 2015. According to the Opinion, the access to and management of foreign capital in the property market must comply with the following requirements:

- (a) Foreign entities or individuals who buy property not for their own use in China must apply for the establishment of a foreign-invested enterprise pursuant to the regulations of foreign investment in property. After obtaining the approvals from relevant authorities and upon completion of the relevant registrations, foreign entities and individuals can then carry on their business pursuant to their approved business scope.
- (b) For a foreign-invested real estate enterprise, the ratio of its registered capital to its total investment is subject to the Interim Provisions of the State Administration for Industry and Commerce for Sino-foreign Equity Joint Ventures on the Ratio of Registered Capital to Total Investment (國家工商行政管理局關於中外合資經營企業注冊資本與投資總額比例的暫行規定). Furthermore, A foreign-invested real estate enterprise is no longer required to have its registered capital paid in full before it becomes eligible to obtain domestic or overseas loans, or make settlement of exchanges for its loans in foreign exchange.
- (c) The commerce authorities and the Administration for Industry and Commerce are responsible for the approval and registration of a foreign-invested property development enterprise and the issuance to the enterprise of a Certificate of Approval for a Foreign-Invested Enterprise (which is only effective for one year) and the Business License. Upon full payment of the assignment price under a land grant contract, the foreign-invested property development enterprise should apply for the land use rights certificate in respect of the land. With such land use rights certificate, it can obtain a formal Certificate of Approval for a Foreign-Invested Enterprise from the commerce authorities and an updated Business License.
- (d) Transfers of projects or shares in foreign-invested property development enterprises or acquisitions of domestic property development enterprises by foreign investors should strictly follow relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: (1) a written undertaking of fulfillment of the contract for the assignment of State-owned land use rights; (2) a construction land planning permit and construction works planning permit; (3) land use rights certificate; (4) documents evidencing the filing for modification with the construction authorities; and (5) documents evidencing the payment of tax from the relevant tax authorities.
- (e) When acquiring a domestic property development enterprise by way of share transfer or otherwise, or purchasing shares from Chinese parties in a Sino-foreign equity joint venture, foreign investors should make proper arrangements for the employees, assume responsibility for the debts of the enterprise and pay the consideration in one single payment with its own capital. Foreign investors with records showing that they have not complied with relevant employment laws, those with unsound financial track records, or those that have not fully satisfied any previous acquisition consideration shall not be allowed to undertake the aforementioned activities.

Any capital contributions made to our operating subsidiaries in China are subject to the foreign investment regulations and foreign exchange regulations in the PRC. For example, on March 30, 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知)(the “SFEC Notice”). The SFEC Notice stipulates, unless otherwise permitted by PRC laws or regulations, Renminbi capital converted from foreign exchange capital contributions cannot be used (i) directly or indirectly for purposes outside the business scope of the enterprises or that are otherwise prohibited by national laws and regulations; (ii) directly or indirectly for investment in securities unless otherwise provided by laws and regulations; (iii) directly or indirectly for granting entrusted loans in Renminbi

(unless permitted by the enterprise's scope of business); (iv) to repay inter-enterprise loans (including advances by third parties) or Renminbi bank loans that have been sub-lent to a third party; or (v) to pay expenses related to the purchase of real estate not for self-use, except for foreign-invested real estate enterprises.

On August 14, 2006, The General Office of MOFCOM promulgated the Circular on the Thorough Implementation of the Opinion on Regulating the Access to and Management of Foreign Capital in the Property Market (關於貫徹落實《關於規範房地產市場外資准入和管理的意見》有關問題的通知)(the "Circular"). The Circular not only reiterates relevant provisions on foreign investment in the real estate industry as prescribed in the Opinion, but also sets forth the definition of Real Estate FIE as a foreign invested enterprise (FIE) which carries out the construction and operation of a variety of buildings such as ordinary residences, apartments and villas, hotels (restaurants), resorts, office buildings, convention centers, commercial facilities, and theme parks, or, undertakes the development of land or a whole land lot in respect of the abovementioned projects.

On September 1, 2006, the MOC and the SAFE jointly issued the Opinions on Regulating the Foreign Exchange Administration of the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知), which was amended on May 4, 2015, providing regulations on real estate development enterprises mainly as follows:

- (a) For real estate development enterprises, the current account for foreign exchange shall not maintain property purchase payments remitted by residents of Hong Kong, Macau and Taiwan and overseas Chinese expatriates;
- (b) Where the state-owned land use rights certificate is yet to be obtained, or the capital fund of development project has not reached 35 percent of the total amount of the project investment, such Real Estate FIE is not permitted to borrow foreign loans from overseas;
- (c) Where foreign entities and individuals purport to merge and acquire domestic real estate enterprises by way of share transfer or any other means, acquire a Chinese party's shares within an equity joint venture, such foreign entities and individuals must be capable of making a one-time payment in relation to the transfer consideration, otherwise SAFE shall not process any foreign exchange registration relating to the foreign exchange transaction.

On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Strengthening and Regulating the Approval and Supervision of Real Estate Industry with Direct Foreign Investment (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) and revised by MOFCOM in October 2015, which stipulates that:

- (a) Strict control should be imposed on the acquisition of or investment in domestic real estate enterprises by way of return investment. Foreign investors shall not acquire control of domestic enterprises for the purpose of circumventing the approval procedure related to Real Estate FIE;
- (b) In a Real Estate FIE, Chinese parties shall not, explicitly or implicitly provide any warranties with regard to allocating fixed returns to any party;
- (c) A Real Estate FIE incorporated upon approval by local approval bodies should be registered with MOFCOM on a timely basis; and

- (d) Foreign exchange administration bodies and designated foreign exchange banks shall not process sale and settlement of foreign exchange for capital account items for Real Estate FIEs that fail to complete filing procedures with MOFCOM.

In addition, according to the Circular on Distribution of the List of the First Group of Foreign-Invested Real Estate Projects Filed with the Ministry of Commerce (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) promulgated by the General Department of SAFE on July 10, 2007, (1) local branches of SAFE shall not process any foreign debt registration application or conversion of foreign debt for any Real Estate FIE (including in respect of both newly incorporated FIREEs and FIREEs that have registered increased capital contributions) that obtained a Certificate of Approval for a Foreign-Invested Enterprise from local commerce authorities and completed the registration with a MOFCOM on or after June 1, 2007; (2) SAFE branches shall not process foreign exchange registration (or alterations to registration) or, sale and settlement of foreign exchange for capital account items, for any FIREE that has obtained a Certificate of Approval from local commerce authorities, but that has not registered with MOFCOM on or after June 1, 2007. The aforesaid SAFE Circular was abolished as of May 13, 2013.

On July 1, 2008, MOFCOM implemented the Circular on the Proper Handling of the Record Filing for Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知), delegating provincial-level commerce authorities the authority to register matters concerning foreign investment in real property projects after approving the legality, authenticity and accuracy of the project. The aforesaid MOFCOM Circular was abolished as of January 1, 2020.

On June 10, 2010, MOFCOM issued the Notice Relating to Decentralizing the Examination and Approval Power for Foreign Investment (商務部關於下放外商投資審批權限有關問題的通知), which stipulates that for establishment of an FIE with total investment of not more than USD300 million under the encouraged and permitted categories and USD50 million under the restricted category as specified in the Foreign Investment Industrial Guidance Catalogue, MOFCOM's branches at the provincial level shall be in charge of examination and approval. The aforesaid MOFCOM Notice was abolished as of January 1, 2020.

On November 22, 2010, the General Office of MOFCOM issued the Notice on Strengthening the Administration of Approval and Record Filing in respect of the Foreign-invested Real Estate Industry (商務部辦公廳關於加強外商投資房地產業審批備案管理的通知) which aimed to implement the relevant rules promulgated by the State Council and to ensure effective control of the real estate industry. MOFCOM addressed the following issues in the notice:

- (a) Local departments of commerce shall strengthen supervision on property projects with an inflow of foreign exchange. When reviewing materials on record, local departments of commerce shall focus on reconfirming the integrity and accuracy of documentation relating to land, including materials proving the transfer of land use rights, such as the land use rights transfer contract and the land use rights certificate;
- (b) Local departments of commerce shall, together with relevant local authorities, strengthen the supervision on cross-border investment and financing activities to prevent risks arising from the real estate market and control speculative investments. PRC property enterprises established with offshore capital shall not conduct arbitrage activities through the purchase and sale of real estate property which is under construction or completed; and

- (c) Local departments of commerce shall further strengthen the approval, supervision and statistics verification of the establishment and/or capital increase of real estate enterprises by way of merger and acquisition, investment by equity and so on.

On November 6, 2015, SAFE and MOFCOM issued the Circular of the Ministry of Commerce and the State Administration of Foreign Exchange on Further Improving the Filing of Foreign Investments in Real Estate (商務部、外匯局關於進一步改進外商投資房地產備案工作的通知)(the “FIRE Notice”). In accordance with the FIRE Notice, MOFCOM shall conduct random inspections on foreign-funded real estate enterprises on a quarterly basis. Within five working days upon receipt of an inspection notice, MOFCOM branches at the provincial level shall submit materials regarding such randomly selected foreign-funded real estate enterprises to MOFCOM for approval. Based on the results of the inspections, MOFCOM shall (i) make public, tighten punishment for and expose misconduct discovered during the inspections; (ii) issue notices criticizing relevant MOFCOM branches for granting illegal approvals; and (iii) blacklist, impose penalties on and publish details on the MOFCOM website regarding non-compliant foreign-funded real estate enterprises and investors. All levels of MOFCOM shall tighten inspection of the investing activities of violating enterprises or enterprises and investors that fail to provide relevant information on real estate projects. MOFCOM shall also increase random inspections on the blacklisted foreign-funded real estate enterprises and their investors and the MOFCOM branches that are found to have granted illegal approvals. The aforesaid FIRE Notice was abolished as of January 1, 2020.

C. Qualifications of a Property Development Enterprise

(i) Classifications for the qualifications of property development enterprises

Under the Development Regulations, a property development enterprise must report its establishment to the governing property development authorities in the location of the registration authority within 30 days of receiving its Business License. The property development authorities shall examine applications for classification of a property development enterprise’s qualification by considering its assets, professional personnel and industrial achievements. A property development enterprise shall only engage in property development projects that come within the scope of its approved qualification.

Under the Provisions on the Administration of Qualifications of Property Developers (房地產開發企業資質管理規定)(the “Provisions on Administration of Qualifications”) promulgated by the MOC and implemented on March 29, 2000 and amended on May 4, 2015 and December 22, 2018 by MOHURD (successor to MOC), a property development enterprise shall apply for registration of its qualifications. An enterprise may not engage in the development and sale of property without a qualification classification certificate for property development.

In accordance with the Provisions on Administration of Qualifications, qualifications of a property development enterprise are classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification shall be examined and approved by corresponding authorities. The class 1 qualifications shall be subject to both preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower shall be formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. For a newly established property development enterprise, after it reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days. The

Provisional Qualification Certificate shall be effective for one year from its issuance and, depending on the actual business situation of the enterprise, may be extended by the property development authority for a period of no longer than two years. A property development enterprise shall apply with the property development authority for qualification classification within one month of expiry of the Provisional Qualification Certificate.

(ii) The business scope of a property development enterprise

Under the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 property development enterprise may undertake a property development projects throughout the country without any limit on the scale of the project. A property development enterprise of class 2 or lower may undertake a project with a gross floor area of less than 250,000 square meters and the specific scopes of business shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

(iii) The annual inspection of a property development enterprise's qualification

Pursuant to the Provisions on Administration of Qualifications, the qualification of a property development enterprise shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property development enterprise's qualification. Procedures for annual qualification inspection for developers with class 2 or lower qualifications shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

D. Development of a Property Project

(i) Land for property development

Under the Provisional Regulations of the People's Republic of China on the Grant and Transfer of the Land-Use Rights 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) (the "Provisional Regulations on Grant and Transfer") promulgated by the State Council on May 19, 1990, a system of assignment and transfer of the right to use State-owned land is adopted. A land user shall pay an assignment price to the State as consideration for the grant of the right to use a land site within a certain term, and the land user may transfer, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the Provisional Regulations on the Grant and Transfer and the Urban Property Law, the land administration authority under the local government of the relevant city or county shall enter into a land grant contract with the land user to provide for the assignment of land use rights. The land user shall pay the assignment price as provided by the assignment contract. After full payment of the assignment price, the land user shall register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The Development Regulations provide that the land use right for a land parcel intended for property development shall be obtained through grant except for land use rights which may be obtained through appropriation pursuant to PRC laws or the stipulations of the State Council.

Under the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣挂牌出讓國有土地使用權規定) promulgated by the MLR on May 9, 2002, implemented on July 1, 2002, and as amended under the new name of the Rules Regarding the Grant of State-Owned Construction Land Use Rights by way of Tender, Auction and Listing-for-sale (招標拍賣挂牌出讓國有建設用地使用權規定) which took effect from November 1, 2007, land for commercial use, tourism, entertainment and commodity housing development shall be granted by means of tender, public auction or listing-for-sale. A tender of land use rights means the relevant land

administration authority (the “assignor”) issues a tender announcement inviting individuals, legal persons or other organizations (whether specified or otherwise) to participate in a tender for the land use rights of a particular parcel of land. The land user will be determined according to the results of the tenders. An auction for land use rights is where the assignor issues an auction announcement, and the bidders can at specified time and location openly bid for a parcel of land. A listing-for-sale is where the assignor issues a listing-for-sale announcement specifying the land grant conditions and inviting bidders to list their payment applications at a specified land exchange within a specified period. The procedures for tender, auction and listing-for-sale may be summarized as follows (for the purpose of the summary, the participant in a tender, auction or listing for sale is referred to as a “bidder”):

- (a) The land authority under the government of the city and county (the “assignor”) shall announce at least 20 days prior to the day of competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars of the land parcel, qualification requirements for bidders, the methods and criteria for selection of the winning bidder and certain conditions such as the deposit for the bid.
- (b) The assignor shall conduct a qualification verification of the bidding applicants and inform the applicants who satisfy the requirements of the announcement to attend the competitive bidding, public auction or listing-for-sale.
- (c) After determining the winning bidder by holding a competitive bidding, public auction or listing-for-sale, the assignor and the winning bidder shall then enter into a confirmation. The assignor should refund the other applicants their deposits.
- (d) The assignor and the winning bidder shall enter into a contract for the assignment of State owned land use rights at a time and venue set out in the confirmation. The deposit for the bid paid by the winning bidder will be deemed as part of the assignment price for the land use rights.
- (e) The winning bidder should apply to register the land registration after paying off the assignment price. The people’s government at the municipality or county level or above should issue the land use rights certificate.

On June 11, 2003, the MLR promulgated the “Regulations on the Grant of State-owned Land Use Rights by Agreement” (協議出讓國有土地使用權規定). According to this regulation, if there is only one entity interested in using the land, the land use rights (excluding land use rights for business purposes including commercial, tourism, entertainment and residential commodity properties) may be assigned by way of agreement. If two or more entities are interested in the land use rights to be assigned, such land use rights shall be granted by means of tender, auction or listing-for-sale.

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of the Examination and Approval of Land Use in Urban Construction (關於加強城市建設用地審查報批工作有關問題的通知) promulgated by the MLR on September 4, 2003, from the day of issuance of the Notice, the assignment of land use rights for luxurious commodity houses shall be stringently controlled, and applications for land use rights for villas are to be stopped. This Notice is no longer valid according to the Announcement of the Ministry of Natural Resources on the Publication of the First Batch of Obsolete or Invalid Catalogues of Normative Documents issued on June 26, 2019. On May 30, 2006, the MLR issued the Urgent Notice on Rigorously Strengthening the Administration of Land (關於當前進一步從嚴土地管理的緊急通知). The Notice stated that land for property development must be granted by competitive bidding, public auction or listing-for-sale; this Notice was replaced by Circular of the General office of the State Council on Distributing, the Opinions of

Departments Including the Ministry of Construction On Adjusting the Housing Supply Structure and Stabilizing the Housing Price (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), but the rules prohibiting development projects for villas should be still strictly enforced.

Under the Urgent Notice of Rigorously Strengthening the Administration of the Land, the land authority should rigidly execute the “Model Text of the State-owned Land-Use Rights Grant Contract” and “Model Text of the State-owned Land-Use Rights Grant Supplementary Agreement (for Trial Implementation)” jointly promulgated by the MLR and the SAIC. The documents relating to the assignment of land should specify the requirements for planning, construction and land use such as relevant restrictions on the dwelling size and plot ratio, and the time limit for the commencement and completion of construction. All these should be set forth in the contract for the assignment of the land.

On September 28, 2007 the MLR promulgated the Rules Regarding the Grant of State-Owned Construction Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣挂牌出讓國有建設用地使用權規定) which came into force on November 1, 2007. The rules stipulate the legal basis, principles, scope, procedures and legal liability arising from and in connection with the assignment of State-owned land use rights by competitive bidding, public auction or listing for sale. The rules clearly state that the grant of land for industrial use must also be by means of competitive bidding, public auction or listing for sale.

The Measures on the Administration of Reserved Land (土地儲備管理辦法), promulgated by the MOF, the PBOC and the MLR on November 19, 2007, was replaced by the Administration of Reserved Land (2018 Amendment) on January 3, 2018, define “reserved land” and stipulate the administrative, regulatory and implementing procedures involved with the management, planning, allocation, use, development, capital expenditure and supply of reserved land. Moreover, the measures make it clear that land must be reserved in accordance with corresponding land programs or plans, and that in determining land reserves priority must be given to land included in state inventories which is unused, unoccupied or under utilized.

On May 23, 2012, the MLR and the NDRC jointly issued the Circular on the Distribution of the Catalog for Restricted Land Use Projects (2012 Version) and the Catalog for Prohibited Land Use Projects (2012 Version)(關於發布實施《限制用地項目目錄(2012年本)》和《禁止用地項目目錄(2012年本)》的通知). In accordance with the circular, the MLR and the NDRC have restricted the area of land that may be granted by local governments for development of housing to seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities; projects for the development of villas have been prohibited.

In November 2009, the MOF, the MLR, the PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grants (關於進一步加強土地出讓收支管理的通知). The Notice raises the minimum down-payment for land premiums to 50% and requires the land premium to be fully paid within one year after the signing of a contract for the assignment of land, subject to limited exceptions. Any developer defaulting on any such payment may not participate in any new transactions of land grant.

In March 2010, the MLR promulgated the Notification on Emphasizing Relevant Issues Relating to the Supply and Supervision of Land for Real Estate Development (關於加強房地產用地供應和監管的有關問題的通知) (the “Notification”) which adopted measures to improve the regulation of land for real estate development. These include measures to: improve the preparation and implementation of land supply plans; guarantee the supply of land for subsidized community housing developments; improve the regime of public tender, auction and listing-for-sale of land use rights; enhance the supervision on

the use of land; disclose to the public information on the supply and assignment of land and the status of the construction project on the land; and conduct special inspections on outstanding problems related to land use.

Pursuant to the Notification, the administrative authorities for land and resources of cities and counties shall establish a regime for developers to report the commencement and completion of construction projects. Under such regime, the developer shall report in writing to the relevant administrative authority for land and resources at the commencement and completion of the construction project. The commencement and completion date of construction set forth in the agreements may be postponed by reporting the reasons for the delay to the respective administrative authority for land and resources no later than 15 days prior to such date. A developer who fails to report accordingly shall be announced to the public and prohibited from participating in any new land grant transactions for a minimum of one year. Additionally, land used for developing subsidized community housing and small-to-medium-size self-use residential commodity housing, as well as for the redevelopment of run-down and substandard housing shall account for not less than 70% of the total land supply for residential property development. The lowest land premium for the assignment of land use rights shall not be lower than 70% of the benchmark price for land of the same grade in the same locality, and the deposit for the participation as a bidder for the land shall not be lower than 20% of the minimum land premium. The contract for the assignment of land shall be executed in writing within ten days after the deal is reached, the down payment of the land assignment price, which shall not be less than 50% of the full land assignment price, shall be paid within one month after the contract for the assignment of land is executed, and the land assignment price shall be paid in full no later than one year after the contract for the assignment of land is executed. A property development enterprise that defaults on the payment of the land premium, holds idle land, hoards or speculates in land, develops property on the land exceeding its actual development capacity or defaults on the performance of the contract for the assignment of land shall be banned from participating in any transactions for the assignment of land for a specified period.

The National People's Congress adopted the PRC Property Rights Law (中華人民共和國物權法) in March 2007, which became effective on October 1, 2007. According to the Property Rights Law, when the term of the rights to use construction land for residential (but not other) property purposes expires, it will be renewed automatically. The PRC 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.

(ii) Development of a property project

(a) Commencement of development with respect to a property project and idle land

Under the Urban Property Law, those who have obtained the land use rights by assignment must develop the land in accordance with the use and period of commencement as prescribed by the contract for the assignment of land. According to the Measures on Disposing Idle Land (閒置土地處置辦法) promulgated by the MLR on April 28, 1999, and as amended on June 1, 2012 with effect from July 1, 2012, a parcel of land can be defined as idle land under any of the following circumstances:

- (a) the development of and construction on the land have not begun within a period of one year from the date stipulated in the land grant contract or in the "Approval Letter for Land Allocation;" or
- (b) the development of and construction on the land has begun, but the area under construction 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 the development and construction have been continuously suspended for more than one year.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user containing proposals on dealing with the idle land, including, (1) extending the time period for development and construction (provided that it shall not be longer than one year); (2) changing the use and planning conditions of the land, and require the land user to fulfill the relevant procedures for the new use or planning; (3) arranging for temporary use for a period not longer than two years; (4) reaching a buy-back agreement with the land user; (5) arranging for replacement land for the land user if the delay of construction is due to planning changes by the administrative authority or (6) other measures proposed and implemented by the municipality or county-level administrative authority based on the particular situation.

With respect to land which is obtained by assignment and which is within the scope of city planning, if the construction work has not commenced after one year as of the date stipulated in the assignment contract, a fine for idle land equivalent to 20% of the assignment price may be imposed on the land user. If the construction work has not commenced after two years, the right to use the land may be forfeited to the State without any compensation. However, the above sanctions will not apply when the delay in commencement of construction is caused by force majeure, non-performance by the government, military control, preservation of cultural relics or other acts of government. On September 8, 2007, the MLR promulgated the Notice on Strengthening the Disposal of Idle Land (關於加大閒置土地處置力度的通知) providing that the land subject to transfer shall be made ready for development before its transfer. The notice also prescribed that the State-owned land use rights certificate shall not be issued before the land grant premium has been paid in full, nor shall any certificate be issued separately according to the ratio of part-payment of the land grant premium.

On January 3, 2008, the State Council promulgated the Circular on Conservation of Intensive Land Use (關於促進節約集約用地的通知)(Guo Fa (2008) No. 3), which seeks to:

- (a) Examine and adjust all ranges of site planning and land use standards in line with the principle of economic and intensive land use. Project designs, construction and approval of construction shall all be subject to stringent land use standards.
- (b) Urge all localities to enforce policies for the disposal of idle land. Where a piece of land has been idle for two full years and may be retrieved unconditionally as statutorily required, such land shall be retrieved and arrangements for its use shall be made; where a piece of land has been idle for one year but less than two years, an idle land charge valued at 20 percent of the land assignment premium shall be levied on the land user.
- (c) Vigorously guide the use of unused and abandoned land and encourage the development and utilization of aboveground and underground space.
- (d) Strictly implement the tender, auction and listing-for-sale regime for land intended for industrial and business purposes. Where the total land premium is not paid in full in compliance with contractual agreement, the land use certificate shall not be issued, nor shall it be issued in proportion to the ratio between the paid-up land premium and the total land premium.
- (e) Make reasonable arrangements on residential land and persist on banning land supply for real estate development projects for villas. Strictly prohibit unauthorized conversion of agricultural land into construction land.
- (f) Strengthen supervision and inspection of intensive land use conservation.

- (g) Discourage financial institutions from granting loans and providing finance to property development enterprises whose real estate development project is less than one quarter invested, occupies an area less than one third and/or was commenced over one year after the project commencement date, in each case as stipulated in the contract for the assignment of land.

(b) Planning of a property project

According to the Measures for Control and Administration of the Grant and Transfer of the 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 the MOC on December 4, 1992, implemented on January 1, 1993 and amended on January 26, 2011, after signing the contract for the assignment of land use rights, a property development enterprise shall apply for a project survey and a construction land planning permit from the city planning authority. After obtaining a construction land planning permit, a property development enterprise shall organize the necessary planning and design work in accordance with planning and design requirements and apply for a construction works planning permit from the city planning authority.

The Urban and Rural Planning Law (城鄉規劃法), promulgated by the Standing Committee of the National People's Congress in October 2007, which became effective in January 2008, as amended on October 23, 2014 and further amended on April 24, 2015 and on April 23, 2019, provides regulations with respect to the formulation, implementation, modification, control, supervision and related legal liability of measures aimed at curbing problems that may arise as a result of conflicts between city and rural construction developments. The scope of the measures includes the planning, layout and construction of cities, towns with administrative status, market towns and villages. In order to effectively prevent construction that is in breach of rules and regulations, the Urban and Rural Planning Law stipulates that where any construction project is commenced without obtaining Construction Land Planning Permit, or where Construction Land Planning Permit has been obtained but construction has proceeded not in accordance with that permit, the Urban and Rural Planning Department at the county level or above may issue an order to cease construction. In the case that the construction can be remedied to conform to the relevant planning rules, an order can be made to rectify the construction in a prescribed period of time and a fine totaling between 5% to 10% of the total construction cost may be imposed. Where the construction cannot conform to relevant planning rules, an order for its demolition will be issued or, where demolition is not possible, the property and/or illegal income derived from the property will be confiscated and a fine totaling 10% or less of the construction cost will be imposed.

On November 30, 2009, the Ministry of Housing and Urban-Rural Development and the Office of the Leading Group for Addressing Problems Regarding Unauthorized Change of Planning and Adjustment of the Floor Ratio in Real Estate Development under the Ministry of Supervision jointly promulgated the Notification on Further Implementation of the Special Project to Address Problems Regarding Unauthorized Changes to the Planning and Adjustment of the Floor Area Ratio (關於深入推進房地產開發領域違規變更規劃調整容積率問題專項治理的通知) which re-emphasized the need to rectify, investigate and punish property development enterprises which undertake any unauthorized adjustment of the floor area ratio.

(c) Construction of a property project

The Notice Regarding the Strengthening and Regulation of the Management of New Projects (關於加強和規範新開工項目管理的通知), promulgated by the General Office of the State Council on November 17, 2007, strictly regulates the conditions for commencing investment projects, establishes a mechanism for the coordination of government departments regarding new projects, and strengthens the statistics and information management while intensifying the supervision and inspection of new projects.

(d) Completion of a property project

According to the Development Regulations and the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) promulgated by State Council on January 30, 2000, and as amended on October 7, 2017 and on April 23, 2019, the Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案管理暫行辦法) promulgated by the MOC in April 2000 and as amended and issued with the new name the Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) on October 19, 2009, and the Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收規定) promulgated by the MOC on December 2, 2013, after the completion of construction of a project, the property must undergo inspection and receive relevant approvals from local authorities including planning bureaus and environmental protection authorities. Thereafter, the property development enterprise shall apply for at the property development authority under the people's government at the county level or above for a certificate of completion. Once the examination has been completed, a Record of Acceptance Examination upon Project Completion (項目竣工驗收報告) will be issued.

E. Transfer and Sale of Property

(i) Transfer of property

According to the Urban Property Law and the “Provisions on Administration of Transfer of Urban Property”(城市房地產轉讓管理規定) promulgated by the MOC on August 7, 1995 and as amended on August 15, 2001, a property owner may sell, bequeath or otherwise legally transfer property to another person or legal entity. When transferring the title to a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the property administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by assignment, the real property may only be transferred on the condition that: (a) the assignment price has been paid in full for the assignment of the land use rights as provided by the contract for the assignment of the land and a land use rights certificate has been obtained; (b) development has been carried out according to the contract for the assignment of the land and, in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed.

If the land use rights were originally obtained by assignment, the term of the land use rights after transfer of the property shall be the remaining portion of the original term provided by the contract for the assignment of the land after deducting the time that has been used by the former land user(s). In the event the transferee intends to change the use of the land provided in the original contract for the assignment of the land, consent shall first be obtained from the original grantor and the planning administration authority under the local government of the relevant city or county and an agreement to amend the assignment contract or a new contract for the assignment of the land shall be signed in order to, amongst other matters, adjust the land use rights assignment price accordingly.

If the land use rights were originally obtained by allocation, transfer of the real property shall be subject to the approval of the government vested with the necessary approval power as required by the State Council. Upon such approval, the transferee shall complete the formalities for transfer of the land use rights, unless the relevant statutes require no transfer formalities, and pay the transfer price according to the relevant statutes.

(ii) Sale of commodity buildings

Under the “Regulatory Measures on the Sale of Commodity Buildings” (商品房銷售管理辦法) promulgated by the MOC on April 4, 2001 and implemented on June 1, 2001, sale of commodity buildings can include both pre-completion sales (pre-sale) and post-completion sales.

(a) Permit for Pre-sale of Commodity Buildings

According to the Development Regulations and the Measures for Administration of Pre-sale of Commodity Buildings (城市商品房預售管理辦法) (the “Pre-sale Measures”) promulgated by the MOC on November 15, 1994 and as amended on August 15, 2001 and July 20, 2004, the pre-sale of commodity buildings shall be subject to a licensing system, and a property development enterprise intending to sell a commodity building before its completion shall register with the property development authority of the relevant city or county to obtain a pre-sale permit. A commodity building may be sold before completion only if: (a) the assignment price has been paid in full for the grant of the land use rights involved and a land use rights certificate has been obtained; (b) a construction works planning permit and construction works commencement permit have been obtained; (c) 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 ascertained; and (d) the pre-sale has been registered and a pre-sale permit has been obtained.

In addition, according to the Regulations on the Administration of Pre-sale of Commodity Buildings of Guangdong Province (廣東省商品房預售管理條例) promulgated by the Standing Committee of the Guangdong Provincial People’s Congress on July 29, 1998, as amended on October 14, 2000, July 23, 2010, and further amended on September 25, 2014 and the Notice on Adjusting the Regulations on the Provision of Images Depicting the Progress of Construction of Pre-Sale Commodity Building Projects in Guangdong Province (廣東省建設廳關於調整商品房預售項目工程形象進度條件的通知) issued by Guangdong Provincial Construction Bureau in January 2001, the following conditions shall be fulfilled for pre-sale of commodity buildings in Guangdong: (a) a real property development qualification certificate and a Business License have been obtained; (b) the grant fees for land use rights have been paid in accordance with the relevant provisions of the land administration department and the land use rights certificate has been obtained; (c) a construction works planning permit and a construction works commencement permit have been obtained, and the construction quality and safety monitoring procedures have been performed; (d) the schedule for construction and the timetable for completion have been determined; (e) the construction of the basic superstructure and the topping-out have been completed in respect of properties of not more than seven stories (including seven stories), and at least two-thirds of the basic superstructure has been completed in respect of properties of more than seven stories; (f) a special property pre-sale account with a commercial bank in the place where the project is located has been opened; (g) the pre-sale properties and the land use rights for the project are free from any third party rights; and (h) other conditions regulated by laws and regulations.

According to the Rules for the Transfer of Real Estate in the Shenzhen Special Economic Zone (深圳經濟特區房地產轉讓條例) promulgated by the Standing Committee of the Shenzhen Municipal Congress in July 1993 and amended in June 1999 and further amended on November 13, 2019, the following conditions shall be fulfilled for the pre-sale of commodity buildings: (a) land use rights have been lawfully registered and a real property certificate obtained; (b) a construction works planning

permit and a construction works commencement permit have been obtained; (c) the full assignment price for the land use rights and at least 25 percent of the total project investment of the construction development must have been paid and certified by an accountant; (d) the property development enterprise and the financier must have signed an agreement to supervise the receipt of funds from pre-sales; and (e) the land use rights must have not been mortgaged or where a mortgage did exist it must have been discharged.

Pursuant to the Implementation Opinion in Respect of Enforcing the Administration of Presales of Urban Commodity Properties (關於加強城市商品房預售管理的實施意見) promulgated by the Construction Commission of Sichuan Province on March 10, 2000, the pre-sale of commodity property in Sichuan Province shall comply with the following conditions: (a) all premiums for the assignment of the land use rights (other than land supplied by way of allocation in accordance with the State laws) must have been paid and the land use rights certificate must have been obtained; (b) a construction works planning permit must have been obtained; (c) for a commodity property project with six stories or less, construction of the foundation and basic superstructure must have been completed; for a non-residential project with six stories or less and a commodity property project with six stories or more, the construction of the foundation and the first story of the basic superstructure must have been completed; and the foundation and the first six stories of the superstructure works of a project without a basement must have been completed; and (d) the works schedule and date of completion delivery have been determined.

According to the Tianjin City Administration Rules for Commodity Housing (天津市商品房管理條例) promulgated on October 24, 2002 and effective from December 1, 2002 and amended on July 29, 2016 by the Standing Committee of the National People's Congress of Tianjin Municipality, the sale of commodity housing includes both pre-sales and post-completion sales. Property development enterprises applying for a permit to sell commodity housing must comply with the following conditions: (a) attainment of legal person status and the requisite class of qualifications for property development; (b) possession of lawful rights to the use of state owned land; (c) examination and approval of an investment plan for the construction of commodity housing or notification letter of filing for fixed asset investment program of an enterprise, a construction engineering plan and a construction plan; (d) payment of fees for the completion of basic installations in accordance with relevant laws; (e) possession of copies of property management plans for which registration has been completed or signed agreements for future property management arrangements; (f) certification from government departments that the commodity housing building development has attained requisite image standards; (g) provision of a timetable for the progress of construction and the completion date; and (h) provision of a sales plan.

According to the Regulations on Administration of Sales of Urban Commodity Buildings in Jiangsu Province (江蘇省城市房地產交易管理條例) promulgated by the Standing Committee of Jiangsu Provincial People's Congress on February 5, 2002 and as amended on August 20, 2004 and March 28, 2018, the following conditions shall be fulfilled for the pre-sale of commodity buildings: (i) the Business License for an enterprise as a legal person and a real property development qualification certificate have been obtained; (ii) the assignment price for the relevant land use rights has been paid in full and a land use rights certificate has been obtained; (iii) a construction works planning permit and a construction works commencement permit have been obtained; (iv) the funds invested in the development of commodity buildings put to presale represent 25% or more of the total investment in the project and the works schedule and the completion and delivery dates have been determined.

According to the Ten Measures of the Wuxi Municipal Government to Implement the State Council's Policies on Real Estate Regulation (無錫市政府出臺十條措施貫徹國務院房地產調控政策) issued by the Office of the Wuxi Municipal Government which came into effect on February 21, 2011, prior to commencing pre-sale of commodity homes, property developers must file relevant pricing

information with the local pricing authorities. Prices of pre-sale commodity homes must not be increased within three months of such filing, and any proposed increase after such three-month period will be subject to the re-filing of relevant pricing information. According to the Notice of the Opinion of the People's Government of Suzhou on Further Strengthening the Management of the Real Estate Market Suzhou City (蘇州市人民政府印發關於進一步加強蘇州市區房地產市場管理的實施意見的通知) promulgated by the People's Government of Suzhou which came into effect on August 12, 2016, applications by property developers for permits to pre-sell commodity houses must include the pre-sale prices of such commodity houses, and such prices must be based on reasonable market conditions. Open market, public sales of all commodity houses included in a pre-sale permit must commence within ten days of the grant of such permit. For the first three months of pre-sale, prices of pre-sale commodity houses must not exceed the prices submitted to the relevant housing authority at the time the pre-sale permit was granted, and in the three months and nine months that follow, such prices must not increase by more than 6% and 12%, respectively.

According to the Notice on Strengthening the Administration of Permits for the Pre-Sale of Commodity Housing (關於加強商品房預售許可證管理有關問題的通知), issued by the Beijing Municipal Bureau of Land and Resources on June 18, 2004, the following materials must be presented by a property development enterprise when applying for a pre-sale permit: (i) a Business License; (ii) the requisite qualification certificates for the relevant class of property development enterprise; (iii) a land use rights certificate; (iv) proof of full payment of the land transfer fee; (v) a construction works planning permit issued by the planning authority as well as general layout plans for the project; (vi) a construction works commencement permit; (vii) a copy of the construction contract; (viii) proof from the receiving bank that the funds invested in the development of commodity buildings put to presale represent 25% or more of the total investment in the project; (ix) a pre-sale program as well as building plans for pre-sale commodity units; and (x) certification from a recognized entity that the project complies with relevant standards (where applicable).

According to the Regulations on the Administration of Sales of Urban Commodity Buildings in Yunnan Province (雲南省城市房地產開發交易管理條例), issued by the Standing Committee of Yunnan Province on September 22, 2000, revised on December 2, 2005 and as amended on May 28, 2010 and amended on November 29, 2018, depending on the scale of a construction project, pre-sale permits are issued by the relevant city or county construction administration authority. Funds received through pre-sales must be used for the construction of the project.

(b) Supervision of pre-sale income of commodity buildings

According to the Pre-sale Measures, the income of a property development enterprise from the pre-sale of commodity buildings must be used for the construction of the relevant project. The specific measures for the supervision of the income from the pre-sale of commodity buildings shall be formulated by the relevant property administration authorities.

(c) Conditions of the sale of post-completion commodity buildings

Under the regulatory Measures on the Sale of Commodity Buildings (商品房銷售管理辦法), commodity buildings may be put to post-completion sale only when the following preconditions have been satisfied: (a) the property development enterprise shall have a Business License and a qualification certificate of a property development enterprise; (b) the enterprise shall obtain a land use rights certificate or other approval documents for land use; (c) the enterprise shall have the construction works planning permit and construction works commencement permit; (d) the building shall have been completed, inspected and accepted as qualified; (e) the relocation of the original residents shall have been completed; (f) the provision of essential facilities for supplying water, electricity, heating, gas,

communication, etc. shall have been made ready for use, and other essential utilities and public facilities shall have been made ready for use, or a date for their construction and delivery shall have been specified; (g) the property management plan shall have been completed.

Before the post-completion sale of a commodity building, a property development enterprise shall submit the Property Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the property development authority.

(d) Regulations on transactions of commodity buildings

According to the Development Regulations and the Pre-sale Measures, for the pre-sale of commodity buildings, the developer shall sign a contract on the pre-sale of a commodity building with the purchaser. The developer shall, within 30 days after signing the contract, apply for registration and filing of the pre-sale commodity building with the relevant property administration authorities.

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Construction and other Departments on Stabilizing House 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意見的通知) issued on May 9, 2005:

- (a) A buyer of a pre-sold commodity building is prohibited from conducting any further transfer of the commodity building before construction has been completed and a property ownership certificate obtained. If there is a discrepancy in the name of the applicant for property ownership and the name of the advance buyer in the pre-sale contract, the property administration authorities shall not register the application for property ownership.
- (b) A real name system is applied for each property purchase transaction and an immediate archival filing network system is in place for pre-sale contracts of commodity buildings.

(iii) Mortgages of Property

Under the Urban Property Law, the Guarantee Law of the People's Republic of China (中華人民共和國擔保法) promulgated by the Standing Committee of the National People's Congress on June 30, 1995 and implemented on October 1, 1995, and the Measures on the Administration of Mortgages of Property in Urban Areas (城市房地產抵押管理辦法) promulgated by the MOC in May 1997 and as amended on August 15, 2001, when a mortgage is lawfully created on a building, a mortgage shall be simultaneously created on the land use rights of the land on which the building is situated. When the land use rights acquired through means of assignment are being mortgaged, the buildings on the land shall be simultaneously mortgaged. The land use rights of town and village enterprises cannot be mortgaged. When buildings owned by town and village enterprises are mortgaged, the land use rights occupied by the buildings shall at the same time also be mortgaged. The mortgagor and the mortgagee shall sign a mortgage contract in writing. Within 30 days after a property mortgage contract is signed, the parties to the mortgage shall register the mortgage with the property administration authorities at the location where the property is situated. A property mortgage contract shall become effective on the date of registration of the mortgage. If a mortgage is created on property in respect of which a house ownership certificate has been obtained, the registration authority shall make an entry under the "third party rights" item on the original house ownership certificate and then issue a Certificate of Third Party Rights to the mortgagee. If a mortgage is created on the commodity building put to pre-sale or under construction, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage after the issuance of certificates evidencing the ownership of the property.

(iv) Leases of buildings

The Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法)(the “Leasing Measures”), promulgated by the MOC on December 1, 2010, stipulate that the parties to a housing tenancy shall go through requisite housing tenancy registration formalities with the competent real estate authorities of the municipalities directly under the PRC central government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. The relevant real estate authorities are authorized to impose a fine below RMB1,000 on individuals, and a fine from RMB1,000 to RMB10,000 on other violators who are not natural persons and fail to comply with the regulations within the specified time limit. The Leasing Measures came into effect as of February 1, 2011 and replaced the Measures for Administration of Leases of Property in Urban Areas (城市房屋租賃管理辦法).

F. Property Credit

The PBOC issued the Circular on Further Strengthening the Management of Property Loans (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 mortgages and individual commodity buildings as follows:

- (a) Property loans by commercial banks to property development enterprises shall be granted only in respect of a particular item of property development rather than to meet cash flow or other financing demands. Loans of any kind must not be granted for projects which do not obtain a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit.
- (b) Commercial banks shall not grant loans to property development enterprises to pay off land premiums.
- (c) Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for an individual home loan for their first residential unit, the minimum first installment remains unchanged at 20%. In respect of a loan application for any additional purchase of a residential unit(s), the percentage of the first installment shall be increased.

Pursuant to the Guidance on Risk Management of Property Loans from 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 development enterprise applying for property development loans shall have at least 35% of the capital required for the development.

According to the Notice of the People’s Bank of China on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposits (中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知) promulgated by the PBOC on March 16, 2005, which took effect from March 17, 2005, in cities and areas where there has been a rapid increase in house prices, the minimum first installment for individual house loans increased from 20% to 30%. Commercial banks can independently determine the particular cities or areas under such adjustment according to the specific situation in different cities or areas.

On May 24, 2006, the State Council issued the Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure and Stabilizing Housing Prices (關於調整住房供應結構穩定住房價格的意見). The regulations relating to property credit are as follows:

- (a) Strict credit conditions shall be imposed on property development enterprises. In order to suppress the ability of property development enterprises to store up land and housing resources, commercial banks shall not provide loans to those property enterprises that fail to meet loan conditions, such as having a project capital of less than 35%. For property development enterprises that have large volumes of idle land and vacant commodity buildings, 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 building that has been idle for three or more years as collateral for loans.
- (b) From June 1, 2006, the minimum first installment for individual home loans shall not be lower than 30%. However, considering the demands for housing by the medium and low-income population, the purchase of owner occupied housing with a gross floor area of no more than 90 square meters is still subject to the requirement to provide a deposit of 20%.

According to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market, foreign-invested property enterprises which have not paid up their registered capital, failed to obtain a land use rights certificate, or which have less than 35% of the capital for the project, will be prohibited from obtaining a loan in or outside China, and SAFE shall not approve the registration of foreign loans from such enterprises.

On September 27, 2007, the PBOC and the CBRC issued the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的通知)(the “Notice”). The Notice puts forward requirements for the purpose of strengthening processes for loan management, including by means of credit checks, monitoring of real estate loans and risk management, in respect of (i) real estate development, (ii) land reserves, (iii) housing consumption and (iv) the purchase of commercial buildings.

Pursuant to the Notice, commercial banks shall not grant loans in any form, to (i) projects where the capital funds (owner’s equity) constitutes less than 35%, or, projects without a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit; and (ii) property development enterprises that have been hoarding land and housing resources, as detected and verified by land resources departments and construction authorities. Furthermore, commercial banks are not permitted to accept commodity buildings with a vacancy exceeding three years as collateral for a loan, and may not grant property development enterprises any loans for the payment of relevant land assignment premiums.

In respect of loans for individual housing consumption, commercial banks are only permitted to grant housing loans to individuals who purchase commodity buildings the construction of which have reached the “topping out of the main structure” stage. Where an individual purchases his or her first commodity apartment for self residence purpose, (i) of a construction area is below 90 square meters, the minimum first installment shall be fixed at no less than 20%; and (ii) if the construction area is above 90 square meters, the minimum first installment shall be fixed at no less than 30%. Where an individual has purchased a commodity apartment by means of such loan and proceeds to purchase a second (or more) home, the minimum first installment shall be no less than 40% and the interest rate shall not be under 110% of the benchmark interest rate as announced by the PBOC during same period and in same bracket. Further, the minimum first installment and the interest rate shall both rise with the increase in the number of homes purchased, with the increased percentage rates to be determined by commercial banks, at their own discretion, according to principles of loan risk management. However, the monthly repayments for housing loans shall not exceed 50% of the individual borrower’s monthly income.

In respect of commercial building loans, commercial buildings purchased by loan shall be buildings that have satisfied procedural requirements of completion inspection and acceptance. For such purchase, the minimum first installment shall be no less than 50%, the loan term shall not exceed ten years and the interest rate shall not be under 110% of the benchmark interest rate as announced by the PBOC during the same period and in same bracket. Where a loan application is made in the name of a “commercial and residential building,” the minimum first installment shall be no less than 45% and the loan term and interest rate shall be arranged according to relevant regulations.

The Supplemental Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的補充通知)(the “Supplemental Notice”), jointly issued by the PBOC and the CBRC and dated December 5, 2007, sets forth supplemental requirements in respect of strengthening housing consumption loan management, mainly including the following:

- (a) Assess the number(s) of housing loan with the borrower’s family as the basic calculation unit.
- (b) Stipulate conditions under which the housing loan policy for first home buyers shall serve as the referential basis for bank loans.
- (c) Where a family that has already purchased a commodity apartment via housing provident fund makes a housing-loan application to commercial banks, the requirements set forth in the Notice shall be duly satisfied in accordance with the Notice.

As stipulated in the Supplemental Notice, in the event an applicant is found to have presented false information and certifications, all commercial banks shall deem the loan application unacceptable.

Since the second quarter of 2008, the PRC government has implemented a series of policies intended to strengthen and improve the sound development of the real estate market.

On May 26, 2008, the CBRC issued the Notice on Further Strengthening Risk Management in the Provision of Credit to the Real Estate Market (Yin Jian Fa No. 42[2008])(關於進一步加強房地產行業授信風險管理的通知). To combat property development enterprises who (i) “falsify mortgages” by using forged property sale contracts; (ii) process “falsified down payments” from borrowers by accepting initial repayments in the pre-sale stage, paying for buyers in advance or by other means; or (iii) mislead banks about decisions over the provision of loans by forging their sale performances or house prices as well as other problems arising in the real estate market, the Notice requires each commercial bank to:

- (a) strictly follow the policies and conditions related to the provision of loans to individuals;
- (b) improve the monitoring of the qualifications of borrowers;
- (c) rigorously examine the enterprise credit ratings of property development enterprises; and
- (d) upon discovering that a property development enterprise has engaged in the “falsification of mortgages,” “falsification of down payments,” “forgery of house prices” or other such behavior, terminate the individual housing loans or development loans extended to such developer. Property development enterprises suspected of committing such crimes shall be referred to the judicial organs for further investigation.

On October 22, 2008, the People's Bank of China issued the Circular on the Expansion of the Downward Adjustment Range for Interest Rates of Commercial Individual Mortgage Loans and Related Issues (中國人民銀行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 decreased the minimum first installment for residential property purchasers to 20% and reduced the minimum mortgage loan rates for such purchases to 70% of the benchmark interest rate starting from October 27, 2008.

On December 20, 2008, the General Office of the State Council issued Several Opinions on Promoting the Sound Development of the Real Estate Market (關於促進房地產市場健康發展的若干意見), which provides the following regarding loans for property businesses:

- (a) The purchase of regular commodity houses for residential purposes is to be encouraged. In addition to extending favorable interest rates and loan policies to first time buyers of apartments for self-residential purposes, individuals with an existing home in which the per person floor area is smaller than the local average may buy a second apartment for self residential purposes under favorable loan terms similar to those that apply to first-time buyers. If individuals purchase a second apartment or more for any other purpose, the interest rate shall be determined according to potential risks by commercial banks and based on the benchmark interest rate.
- (b) The proper financing requirements for property development enterprises should be adhered to. Commercial banks shall increase credit financing services available to ordinary commercial housing construction projects, provide financial support and other related services to property development enterprises engaged in merger and restructuring activities, and support the approval of bond issuances by property development enterprises.

The State Council issued the Notice on Adjusting the Minimum Capital Requirement for Capital Funding for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知) on May 25, 2009, which provides for the reduction of the minimum capital requirement for affordable residential housing projects and regular commodity residential houses from 35% to 20%, and for other property projects to 30%. When providing credit finance support and services, financial institutions shall determine, at their own discretion, whether to grant a loan and the amount of the loan having regard to the minimum capital requirement as determined by the state.

On April 17, 2010, the State Council issued the Notice on Firmly Preventing Property Prices from Increasing too rapidly in Certain Cities (國務院關於堅決遏制部分城市房價過快上漲的通知), pursuant to which the State Council raised the minimum first installment for second home purchases to 50% and set a minimum 30% first installment on first homes with a GFA of more than 90 square meters. Further, the notice also stipulates that interest rates for mortgage loans for second homes cannot be lower than 110% of PBOC benchmark lending rate; and Interest rates for mortgage loans and minimum first installments for third or subsequent homes shall be increased substantially.

On September 29, 2010, the PBOC and the CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知), which, among other things:

- (a) prohibits commercial banks from providing housing mortgages to any members of a family unit purchasing their third or subsequent residential house or non-local residents who fail to provide one year or longer worth of local tax payment certificates or social insurance payment certificates;

- (b) prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as: (i) holding idle land; (ii) changing the land use; (iii) delaying the commencement and completion of development; and (iv) intentionally holding properties for future sale for the purpose of new property development;
- (c) increases the minimum down payment to at least 30% of the purchase price of the property.

According to Notice of Individual Housing Loan Policies (關於個人住房貸款政策有關問題的通知) promulgated joint by the PBOC, the MOHURD and the CBRC on March 30, 2015, where the household of a resident who owns one home of which relevant housing loan has not been settled files a new application for a commercial individual housing loan for purchasing an ordinary home to be used as its owner's residence for the purpose of improving its living conditions, the minimum first installment for the second ordinary property is not less than 40%. Where the household of a worker who pays housing provident fund contributions uses a housing provident fund commission loan to purchase the first ordinary home to be used as its owner's residence, the minimum first installment is 20%; where the household of a worker who owns one home of which relevant housing loan has been settled files a new application for a housing provident fund commission loan for purchasing an ordinary home to be used as its owner's residence for the purpose of improving its living conditions, the minimum first installment is 30%.

G. Insurance of a Property Project

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

H. Environmental Protection

Pursuant to the requirements of relevant laws and regulations such as the Appraisal Measures for the Impact on the Environment of the PRC (中華人民共和國環境影響評價法) implemented by the Standing Committee of the National People's Congress in September 2003, and amended on July 2, 2016, with effect from September 1, 2016 and further amended on December 29, 2018, and the Regulations Governing Environmental Protection of Construction Projects (建設項目環境保護管理條例) implemented by the State Council in November 1998 and amended on July 16, 2017 with effect from October 1, 2017, property development enterprises and construction enterprises must carry out an appraisal of the impact the construction project will have on the environment. The relevant project shall not commence until approval is obtained from the supervisory body for environmental protection. While the project is in progress, the developer should also comply with the appraisal documents relating to the impact on the environment and implement the environmental protection measures set out in the opinion of the supervisory body for environmental protection. Such measures must be incorporated into the design, construction and operation of the general construction. Upon completion of the project, the developer should apply to the supervisory body for environmental protection for the inspection and acceptance of the completed environmental protection facilities. Only those projects that have been inspected and accepted may go into operation or be available for use.

Pursuant to the Administrative Regulations for the Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 which took effect from the same day, and amended on July 16, 2017 with effect from October 1, 2017 and the Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) on December 27, 2001 which took

effect from February 1, 2002 and was revised on December 22, 2010, and the Law of the People's Republic of China on Evaluation of Environmental Effects (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 which took effect from September 1, 2003 and amended on July 2, 2016 with effect from September 1, 2016, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection administrative authorities. Construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed, constructed and commenced simultaneously with the main facility. Provisions on the Graded Examination and Approval of Environmental Impact Assessment Documents of Construction Projects (建設項目環境影響評價文件分級審批規定) promulgated by the Ministry of Environmental Protection of the PRC, which took effect from March 1, 2009 further classified the construction projects whose environmental impact assessment shall be submitted to and approved by the Ministry of Environment and its local counterparts at provincial level. For those approvals made by lower environmental authorities in respect of construction projects that should have been submitted for approval to a higher competent environmental authority, the higher competent authority may revoke the approval made by such lower authority.

I. Construction Safety

Under relevant laws and regulations such as the Laws for Safe Production in the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress in November 2002 and as amended on August 27, 2009 and August 31, 2014, which took effect from December 1, 2014, and the Regulations of the Construction Safety of Shenzhen Special Economic Zone (深圳經濟特區建設工程施工安全條例) promulgated by the Standing Committee of the People's Congress of Shenzhen in February 13, 1998 and amended on June 25, 2004 and on November 13, 2019, the property development enterprise should apply to the supervisory department on safety for the registration of supervision for work safety in construction before the commencement of construction. Constructions without such registration will not be granted a construction works commencement permit by the supervisory body. Contractors for the construction should establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme should also be set up to carry out the work safety job responsibility system. At the same time, contractors should adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labor safety and hygiene standards of the State.

Under the Construction Law of the People's Republic of China (中華人民共和國建築法) promulgated by the Standing Committee of the National People's Congress on November 1, 1997 and as amended on April 22, 2011 and on April 23, 2019, the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the site, and the subcontractors are required to comply with the protective measures adopted by the main contractor.

J. Major Taxes Applicable to Property Development Enterprises

(i) Income tax

According to the Income Tax Law of The People's Republic of China for Foreign-invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) which was promulgated by National People's Congress on April 9, 1991 and implemented on July 1, 1991 and its

detailed rules promulgated by State Council on June 30, 1991, the income tax on enterprises with foreign investment was computed on the taxable income at the rate of 30%, and local income tax was computed on the taxable income at the rate of 3%.

Pursuant to the Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) issued by the State Council on December 13, 1993 and enforced on January 1, 1994 and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例實施細則) issued by the MOF on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign-invested enterprises and foreign enterprises was 33%.

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) enacted by the National People's Congress on March 16, 2007 and enforced from January 1, 2008 and amended on February 24, 2017 and December 29, 2018, a unified income tax rate of 25% is applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises. The Income Tax Law of The People's Republic of China for Foreign-invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外商企業所得稅法) and the Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例實施細則) were thereby annulled.

The EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. The income tax rate of such enterprises will gradually be transiting to the uniform tax rate within the transition period in accordance with implementing rules issued by the State Council. On December 26, 2007, the State Council issued the Circular to Implement the Transition 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 those enterprises then entitled to a preferential income tax rate of 15% and established before March 16, 2007, the transition income tax rate should be 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively.

Under the EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the unified 25% enterprise income tax rate as to their global income.

According to the Implementation Rules of the PRC on the Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) promulgated by the State Council on December 6, 2007 which became effective from January 1, 2008, a reduced income tax rate of 10% is applicable to any dividends payable to non-PRC enterprise investors from FIEs.

According 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 (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, or the Avoidance of Double Taxation Agreement, dividend payments to shareholders in Hong Kong would be withheld at a rate of 5% if their investment ratio in invested entities in China is above 25%, or 10% if their investment ratio in invested entities in China is below 25% and certain other conditions are met.

(ii) Business tax

Pursuant to the Interim Regulations of the People's Republic of China 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, amended on November 5, 2008, and implemented on January 1, 2009, and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the MOF on December 25, 1993 and amended and implemented on January 1, 2009 and on November 1, 2011 respectively, the tax rate applicable to the transfer of real properties, their superstructures and attachments is 5%. The aforesaid Interim Regulations of The People's Republic of China on Business Tax and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax were abolished as of November 19, 2017.

In accordance with Notice on the Adjustment of Business Tax for the Transfer of Individual Homes (關於調整個人住房轉讓營業稅政策的通知) promulgated by the MOF and the SAT on March 30, 2015, and took effect from March 31, 2015, individuals who purchased their house for self-residential purposes may, two or more years after the purchase, resell their house without paying business tax. Individuals who have owned their self-residential house for less than two years shall pay business tax on the full sale price. Individuals who have purchased their house for any purpose other than self-residential shall, if they have owned it for two years or more, pay business tax on the net profit.

(iii) Land appreciation tax

According to the requirements of the Provisional Regulations of The People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例)(the "Land Appreciation Tax Provisional Regulations") which were promulgated on December 13, 1993 and came into effect on January 1, 1994 and amended on January 8, 2011, and the Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例實施細則)(the "Land Appreciation Tax Detailed Implementation Rules") which were promulgated and came into effect on January 27, 1995, any capital-gain from a transfer of property shall be subject to land appreciation tax. Land appreciation tax shall be charged at four levels of progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. Deductible items include the following:

- (a) amount paid for obtaining the land use rights;
- (b) costs and expenses for the development of the land;
- (c) costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- (d) related tax payable for the transfer of property; and
- (e) other deductible items as specified by the MOF.

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 require property development enterprises to declare and pay the land appreciation tax. Accordingly, the MOF,

the SAT, the MOC and the MLR separately and jointly issued several notices to restate the following: after the land grant contracts are signed, the taxpayers should declare the tax to the local tax authorities where the property is located, and pay land appreciation tax in accordance with the amount as calculated by the tax authority. For those who fail to acquire proof of payment or exemption from land appreciation tax 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 also issued the Notice on the Strict Handling 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 request local tax authorities to: modify the management system of land appreciation tax collection; build up a sound taxpaying declaration system for land appreciation tax; and modify the methods of pre-levying tax for the pre-sale of properties. The Notice also pointed out that for property development contracts which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the policy for exemption from land appreciation tax exemption for properties that are transferred for the first time is no longer in effect and the 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 the Notice on Further Strengthening the Administration of 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 on August 2, 2004 and August 5, 2004, respectively, by SAT. These two Notices also required that system for the declaration of land appreciation tax and the registration of the sources of the land appreciation tax should be further improved.

The MOF and the SAT issued the Notice on Several Points on Land Appreciation Tax (關於土地增值稅若干問題的通知) issued on March 2, 2006 and amended on February 2, 2015 clarifies relevant issues regarding land appreciation tax as follows:

- (a) Standards for the transfer of ordinary standard residential houses. Where any development project includes ordinary residential houses as well as other commercial houses, the amount of land appreciation shall be verified for both commercial and residential houses, respectively. No adjustment shall be retroactively made to any application for tax exemption for ordinary standard residential houses that were filed with the tax authority at the locality of the property prior to March 2, 2006, especially for ordinary standard residential houses which had been exempted from land appreciation tax as according to standards determined by the people's government of a province, autonomous region or municipality directly under the Central Government.
- (b) Standards for the collection and settlement of land appreciation tax:
 - (i) All regions shall decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the value of the property as well as the market development level within the region and on the basis of the specific housing categories, namely, ordinary standard residential houses, non-ordinary standard residential houses and commercial houses. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.
 - (ii) As to any tax that fails to be collected in advance within the advance collection term, overdue fines shall be collected as of the day following the expiration of the prescribed advance collection term according to the provisions of relevant tax collection and administration law.

- (iii) As to any property project that has been completed and has gone through the acceptance procedure, where the floor area of the property as transferred makes up 85% or more of the saleable floor area, the tax authority may require the relevant taxpayer to settle its land appreciation tax obligation for the transferred property according to the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region or municipality directly under the Central Government, or a city under separate state planning.
- (iv) As to any investment that uses land (property) as payment for the purchase of shares, where an enterprise involved in the investment engages in property development or where any other property development enterprise invests in commercial houses it itself builds, it shall not be governed by the regulation of the interim exemption of land appreciation tax when the property (land) is transferred to the enterprise.

On December 28, 2006, the SAT issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (國家稅務總局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 and was later amended on July 7, 2016 and June 15, 2018.

Pursuant to the Notice, a property development enterprise shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if (i) the property development project has been completed and fully sold; (ii) the property development enterprise transfers the whole uncompleted development project; or (iii) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may require the property development enterprise to settle the LAT if any of the following criteria is met: (i) for completed property development projects, the transferred GFA represents more than 85% of total salable GFA, or the proportion represented is less than 85%, but the remaining salable GFA has been leased out or used by the property development enterprise; (ii) the project has not been completed sold more than three years after obtaining the sale permit or pre-sale permit; (iii) the property development enterprise applies for cancelation of the tax registration without having settled the relevant LAT; or (iv) other conditions stipulated by the tax authorities.

The Notice also indicated that if any of the following circumstances applies to a property development enterprise, the tax authorities shall levy and collect LAT as per a levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account books required by law or administrative regulation; (ii) destroying account books without authorization or refusing to provide taxation information; (iii) the accounts have not been properly maintained or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or the amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and the local situation.

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)(the “Settlement Rules”), which became effective on June 1, 2009 and was later amended on July 7, 2016. The Settlement Rules reiterated the circumstances under

which the LAT must be settled, the criteria that are to be met for relevant tax authorities to require the settlement of LAT and the circumstances under which the tax authorities shall levy and collect LAT as prescribed by the Notice. The Settlement Rules further stipulate detailed procedures for the examination and verification of the settlement of LAT to be carried out by relevant tax authorities.

On May 19, 2010, the State Administration of Taxation issued the Circular on Relevant Issues of the Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知), which details relevant issues concerning income verification about the settlement of land appreciation tax, and the calculation of applicable exemption under certain circumstances.

On May 25, 2010, the State Administration of Taxation promulgated the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知) and imposed further requirements on the collection of LAT. This notice provides that, except for indemnificatory housing, the minimum LAT prepayment rate shall be no less than 2% for properties in the eastern region of the PRC, no less than 1.5% for properties in the central or northeast region of the PRC and no less than 1% for properties in the western region of the PRC. The LAT prepayment rates will be determined by the local authorities based on the different types of properties in the locality.

In accordance with the Notice from Shenzhen Local Taxation Bureau in respect of Adjustment regarding the Advanced Levy and Collection Rate of Land Appreciation Tax (深圳市地方稅務局關於調整我市土地增值稅預徵率的公告), the deemed rate of LAT is 2% for common housing, 4% for villas and 3% for all other types of properties.

In Sichuan, the levy and collection of LAT is governed by the “Sichuan Local Tax Administration Provisional Regulations on the Levy and Collection of Land Appreciation Tax”(四川省地方稅務局土地增值稅徵收管理暫行規定) promulgated on October 16, 1995 and as amended on June 30, 2010. In accordance with the provisional regulations, a person who is engaged in the development and sale of property must pay LAT in advance. LAT shall be levied and collected in advance on income connected with the transfer of properties prior to their completion. Within 90 days of settling accounts after the completion of project, property development enterprises must submit an audit report to the taxation bureau. Upon verification by the taxation bureau of the amount of LAT already paid, a supplemental payment or a partial refund of LAT may be applicable.

According to the “Tianjin Taxation Bureau Notice on policy concerning Land Appreciation Tax”(天津市地方稅務局關於土地增值稅相關政策的公告) promulgated on November 28, 2016, in respect of commodity houses, the rate of LAT is based on different sales prices to restrict the development of high-level houses. A rate of 2% applies to the properties priced at less than or equal to RMB20,000 per square meter, a rate of 3% applies to the properties priced from RMB20,000 to RMB30,000 per square meter, and a rate of 5% applies to properties priced higher than RMB30,000 per square meter.

The Notice on the Administration of the Levy and Collection of Land Appreciation Tax (關於土地增值稅徵收管理有關問題的通知), promulgated by the Beijing Local Taxation Bureau on December 19, 2006, states that as of January 1, 2007 and amended on September 26, 2011 and September 27, 2017, the contents that LAT at the flat rate of 1% shall be pre-collected in respect of all revenue received by a property development enterprise from pre-sales and sales of commodity buildings, unless such commodity buildings are government approved low cost housing or fixed price housing has been canceled.

According to the Notice on Strengthening the Administration of the Levy and Collection of Land Appreciation Tax (關於進一步加強土地增值稅徵收管理有關問題的通知) issued by the Yunnan Provincial Tax Bureau on August 25, 2005 and amended on June 15, 2018, a pilot program for the pre-collection of LAT in Kunming, Zhaotong, Qujing, Wenshan, Chuxiong, Dali, Baoshan and Lincang commenced on July 1, 2005. Ordinary houses are subject to LAT at a rate between 0.5% and 1%; office buildings, commercial spaces, villas, holiday resorts, high-end apartments and other such commodity buildings are subject to LAT at a rate between 1% and 2%; the transfer of land use rights over land for development is subject to LAT at a rate between 1.5% and 3%. Upon the completion of the construction and sales of a particular project, the property development enterprise must apply to the relevant local taxation bureau for a settlement of LAT, at which stage the developer will be liable to pay any amount of outstanding LAT or, as the case may be, entitled to a refund of excess LAT.

On October 22, 2008, the MOF and the SAT issued the Circular on Taxation Policy Adjustment Concerning Real Estate Trading (關於調整房地產交易環節稅收政策的通知) and amended on September 29, 2010 and temporarily exempted the LAT for individuals selling houses starting from November 1, 2008.

(iv) Deed tax

Pursuant to the Interim Regulations of the People's Republic of China 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 amended on March 2, 2019, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be subject to the payment of deed tax. The rate of deed tax is 3% to 5%. The governments of provinces, autonomous regions and municipalities directly under the central government may, within the aforesaid range, determine their effective tax rates. Pursuant to the Implementation Provisions on Deed Tax in Guangdong Province (廣東省契稅實施辦法) promulgated by the People's Government of Guangdong on June 10, 1998, effective on October 1, 1997, the rate of deed tax within Guangdong is 3%. Pursuant to the Circular on the Adjustment of the Deed Tax Rate (關於調整契稅稅率的通告) promulgated by the Chengdu Financial Bureau and the Chengdu Local Tax Bureau on June 30, 1999, the deed tax rate for Chengdu is 3%. Pursuant to the Tianjin City Implementation Rules on Deed Tax (天津市契稅徵收實施辦法) promulgated by the Tianjin Municipal Government on October 1, 1997, the deed tax rate for Tianjin is 3%. Pursuant to the Implementation Rules of the Interim Regulations of the People's Republic of China on Deed Tax (江蘇省實施《中華人民共和國契稅暫行條例》辦法) promulgated by the People's Government of Jiangsu Province on November 20, 1998 and amended on March 20, 2008, the deed tax rate for Yixing City is 3%. According to the Beijing Administrative Rules on Deed Tax (北京市契稅管理規定), issued by the Beijing Municipal Government on June 27, 2002 and amended on November 27, 2010, a 3% deed tax applies in Beijing. According to the Administrative Rules on Deed Tax in Yunnan Province (雲南省契稅實施辦法), promulgated by the People's Government of Yunnan Province on May 18, 1998 and amended on November 29, 2010 and amended on August 1, 2015, a 3% deed tax is applicable in Yunnan Province.

On September 29, 2010, the Ministry of Finance, the SAT and the MOHURD issued the Notice of Deed Tax on the Adjustment of Real Estate Transactions and Personal Income Tax Preferential Policies (財政部、國家稅務總局、住房和城鄉建設部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: (1) first time home buyers who purchase an ordinary residence that is the family's sole property may receive a fifty percent discount on applicable deed tax; deed tax is reduced to 1% for first time buyers who purchase an ordinary residence with less than 90 square meter floor area which is the family's sole property, and (2) tax payers who, within a single twelve month period, purchased and sold a self-owned residential property and then purchased another residential property shall not be eligible for any reduction of exemption of individual income tax.

(v) Urban land use tax

Pursuant to the Provisional Regulations of the People's Republic of China 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 December 31, 2006 and amended on January 1, 2007 and March 2, 2019, land use tax in respect of urban land is levied according to the area of relevant land. As of December 7, 2013, the annual tax on every square meter of urban land collected from foreign-invested enterprises shall be between RMB0.6 and RMB30.0.

(vi) Buildings tax

Under the Interim Regulations of the People's Republic of China on Building Tax (中華人民共和國房地產稅暫行條例) promulgated by the State Council on September 15, 1986 and implemented on October 1, 1986 and as amended on January 8, 2011, building tax shall be levied at 1.2% if it is calculated on the basis of the residual value of a building, and 12% if it is calculated on the basis of the rental payments for lease of the building.

According to the Circular Concerning the Levy of Building Tax on Foreign Enterprises and Foreigners (關於對外資企業及外籍個人徵收房產稅有關問題的通知) promulgated by the Ministry of Finance on January 12, 2009, and the Circular Concerning the Implementation of the Levy of Building Tax on Foreign-Invested Enterprise and Foreign Individuals (關於做好外資企業及外籍個人房產稅徵管工作的通知) issued by the SAT on January 6, 2009, from January 1, 2009, domestic and foreign-invested enterprises and foreign individuals will all be subject to the Interim Regulations of the People's Republic of China on Building Tax.

On January 27, 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing pilot property tax schemes, which became effective on January 28, 2011.

(vii) 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 and implemented on October 1, 1988 and amended on January 8, 2011, for property transfer instruments, including those in respect of property ownership transfer, the stamp duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

On October 22, 2008, the MOF and the SAT issued the Circular on Taxation Policy Adjustment Concerning Real Estate Trading (關於調整房地產交易環節稅收政策的通知) and amended on September 29, 2010 and temporarily exempted stamp duty for individuals selling or buying houses starting from November 1, 2008.

(viii) Municipal maintenance tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on February 8, 1985 and amended on January 8, 2011, any taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. According to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic

Enterprises, Foreign-Invested 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附加制度的通知) issued by the State Council on October 18, 2010, the municipal maintenance tax will become applicable to foreign-invested enterprises as of December 1, 2010.

(ix) Education surcharge

Under the Interim Provisions on the Imposition of the Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and as amended on June 7, 1990 and August 20, 2005 and amended on January 8, 2011, a taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax shall pay an education surcharge, unless such taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知). According to the Notice on Unifying the Municipal Maintenance Tax and Education Surcharge System of Domestic Enterprises, Foreign-Invested 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附加制度的通知) as issued by the State Council on October 18, 2010, the education surcharge will become applicable to foreign-invested enterprises as of December 1, 2010.

K. Measures on Stabilizing Housing Price

The General Office of the State Council promulgated the Circular on Duly Stabilizing the Prices of Residential Properties (關於切實穩定住房價格的通知) on March 26, 2005, requiring measures to be taken to restrain housing prices from increasing too fast and to promote the healthy development of the property market. On April 30, 2005, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Stabilizing the Prices of Residential Properties (關於做好穩定住房價格工作的意見), which provides that:

(i) Intensifying planning and control and improving the housing supply structure

Where there is excessive growth in housing prices and insufficient supply of medium to low priced commodity houses and affordable residential housing, housing construction should mainly involve projects for the development of medium to low priced commodity houses and affordable residential houses. The construction of low-density, high-quality houses shall be strictly controlled. With respect to projects for the construction of medium-or-low-price commodity houses, prior to the assignment of land, the municipal planning authority shall, according to control planning, set forth conditions for the plan and design of such elements as height of buildings, plot ratio and green space. The property authority shall, in collaboration with other relevant authorities, set forth requirements such as sale price, type and area. Such conditions and requirements will be set up as preconditions to the assignment of land to ensure an adequate supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for property development projects. Housing projects that have not been commenced within two years must be re-examined, and those that turn out to be noncompliant will have their planning permits revoked.

(ii) Intensifying control over the supply of land and rigorously enforcing the administration of land

Where there is rapid excessive growth in the price of land for residential use, the proportion of land for residential use to the total land supply should be raised, and the land supply for the construction of regular commodity housing at medium or low prices and affordable residential housing should be increased. Land supply for villa construction shall be continuously suspended, and land supply for high-end housing property construction shall be restricted.

On May 24, 2006, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Adjusting Housing Supply Structure and Stabilization of Housing Prices (關於調整住房供應結構穩定住房價格的意見). As to the adjustment of housing supply and stabilization of housing prices, the opinion provides that:

(a) *Adjustment to the housing supply structure*

- (i) The construction of medium and small-sized regular commodity houses at medium or low prices should be especially developed to satisfy the demands of local residents.
- (ii) From June 1, 2006, for each and every commodity building newly examined and approved for the commencement of construction, the proportion of the area of housing (including economically affordable housing) with a unit floor area less than 90 square meters must reach 70% of the total development and construction area. In case of adjustment of the above-mentioned proportion, if required in special cases, the municipalities directly under the central government, separately planned cities and provincial capital cities must submit the special request for adjusting proportion to the MOC for approval. The projects that have been examined and approved but have not received a construction works commencement permit shall where necessary adjust the set style of housing according to the above-mentioned requirements.

(b) *Adjustment to tax, credit and land policies*

- (i) Commencing June 1, 2006, business tax applicable to the transfer of a residential property by an individual within five years from the date of purchase will be levied on the basis of the full amount of the sale proceeds. For an individual transferring an ordinary residential property five years or more from the date of purchase, business tax will be exempted. For an individual transferring a house other than an ordinary residential house for five years or more from purchasing, the business tax will be levied on the basis of the balance between the income from selling the house and the purchase price;
- (ii) In order to restrain property development enterprises from purchasing land and buildings with bank credits, any developer applying for loans shall have at least 35% of capital required for the project development. Commercial banks should restrict the grant or extension of revolving credit facilities in any form to property development enterprises with a large amount of idle land and/or vacant commodity buildings. Commodity buildings which are vacant for more than 3 years should not be accepted as a guarantee by the commercial banks;
- (iii) From June 1, 2006, the first installment of individual house loans should be no less than 30%. When a borrower applies for individual house loans for his own use and the floor area of the unit is less than 90 square meters, the first installment remains at 20%;
- (iv) At least 70% of the land supply for residential property developments must be used for low-to-medium-cost and small to medium-size units and low-cost rental properties. On the basis of the restriction of price and housing style, the land supply shall adopt the method of competitive bidding of land price and housing price to determine the property development enterprise. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly prohibited;

- (v) When construction has not yet started one year after the construction commencement date agreed in the land use rights assignment contract has elapsed, charges for idle land should be collected at a higher level; when the construction has not started two years after the construction commencement date agreed in the land use rights assignment contract have elapsed, the right to use land can be taken back without compensation. The land will be regarded as idle land if: the development and construction of the land has started on time, but the developed area is less than one third of the total area to be developed and constructed, or the invested amount is less than 25% of the total amount of investment, and the development and construction has been continuously suspended for no less than one year without approval.

(c) *Further rectifying and regulating the property market*

- (i) Any project with a Construction Land Planning Permit which has not started construction should be re-evaluated. If the project is not in accordance with the controlling requirements of the plan, especially the requirements of the set style structure, the construction works planning permit, the construction works commencement permit and the pre-sale permit should not be issued. Projects which have been altered or the construction of which have exceeded the provisions shall be disposed of or confiscated according to law.
- (ii) The property administration authority and the administration of industry and commerce should investigate any illegal conduct such as contract fraud. Illegal conduct involving commodity building pre-completion sales without the necessary conditions should be ordered to stop and punished. With respect to the property enterprises that store up housing and maliciously manipulate and raise housing prices, the competent authorities shall enforce monetary punishment according to laws and regulations, and the responsible persons concerned may have their Business Licenses revoked and/or shall be investigated and prosecuted.

To implement the Opinions on Adjusting the Housing Supply Structure and Stabilizing Housing Prices, the MOC promulgated Certain Opinions Regarding the Implementation of the Ratio Requirement for the Structure of Newly Constructed Residential Units (關於落實新建住房結構比例要求的若干意見) on July 6, 2006 and made supplemental requirements on the proportion of newly built housing structure as follows:

- (a) From June 1, 2006, in any city (including counties), housing with a floor area of less than 90 square meters should reach 70% of the total floor area of commercial commodity buildings newly approved or constructed.
- (b) The governments should guarantee the conditions of planning and design of newly-built commodity buildings conform to the requirements of structure and proportion. Any digression from the above-mentioned requirements without authorization is forbidden and a construction works planning permit should not be issued by municipal planning and authorities. If there is any noncompliance with the planning permit, a construction works commencement permit should not issued by the construction authority and a permit for pre-sale of commodity buildings should not be issued by property development authority.

According to Several Opinions of the General Office of the State Council on Providing Financial Support for Economic Development (No. 126 [2008])(國務院辦公廳關於當前金融促進經濟發展的若干意見), issued by General Office of the State Council on December 8, 2008, the State Council (i)

implemented and promulgated relevant credit policies and measures to support people's purchase of their first ordinary home or improved ordinary home; (ii) provided more credit support for the construction of low rent houses and affordable residential houses and the reconstruction of shed areas for low-income urban residents; and (iii) initiated the pilot operation of real estate trust investment funds to diversify the financing channels of real estate enterprises.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of the 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 reasonable guidance for the purchase of property, restrain speculative investment in property, and strengthen risk prevention and market supervision. Additionally, the Circular explicitly requires a family (including a borrower, his or her spouse and children under 18) who have already entered into a mortgage for the purchase of a house to pay a minimum down payment of 40% of the purchase price of a second or any additional house which they apply to purchase.

On February 15, 2012, the MLR promulgated the Notice on Accomplishment of Real Estate Land Administration and Control in 2012 (《國土資源部關於做好2012年房地產用地管理和調控重點工作的通知》) which requires that the previous real estate market control policy shall be firmly performed and the real estate land supply for residential projects, especially for social security housing projects shall be guaranteed.

On July 19, 2012, the MLR and MOHURD jointly issued the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of the 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》) to strengthen the enforcement of macroeconomic policy in the real property market, which requires residential construction projects must commence within one year from the land title delivery date which is stipulated in the land allocation decision or land grant contract and must be completed within three years from the date of commencement.

On November 5, 2012, the Ministry of Land and Resources, the Ministry of Finance, PBOC and CBRC jointly promulgated the Notice on Strengthening Land Reserves and Financing Administration (Guotuzi Fa [2012] No. 162)(《關於加強土地儲備與融資管理的通知》(國土資發[2012]162號)) in order to strengthen land bank institution administration, determine the reasonable scale and structure of land bank, strengthen the administration of land pre-development, reservation and protection, and regulate the financing to land reservation and the use of land reservation funds.

On February 20, 2013, the executive meeting of the State Council chaired by Premier Wen Jiabao issued a document emphasizing the strict implementation of tightening measures for the real estate market. The measures include completing a system of responsibility for stabilizing housing prices; restraining purchases of residential housing for investment and speculation purposes; expanding the supply of both ordinary commodity housing and of land; accelerating construction of affordable housing projects; and strengthening market supervision.

On February 26, 2013, the State Council issued the Notice on Continuing Adjustment and Control of Property Markets (《關於繼續做好房地產市場調控工作的通知》) which requires, among other restrictive measures:

- (i) *Improving the responsibility system for stabilizing housing prices.* Municipalities directly under the central government, cities listed on state plans and provincial capitals (excluding Lhasa) must set an annual objective for controlling housing prices and publish annual new commodity housing price control target in the first quarter of the year.
- (ii) *Firmly restraining purchases of residential housing for investment and speculation purposes.* Municipalities directly under the central government, cities listed on state plans and provincial capitals (excluding Lhasa) which have implemented restrictions on the real estate market are required to cover all administrative areas of the cities as restricted areas, and restricted housing shall include new commodity housing and second-hand housing. Non-local residents who possess one or more residential properties and fail to provide one-year or longer tax payment certificates or social insurance payment certificates are to be barred from purchasing any residential properties located in the administrative area. For cities where housing prices are increasing at an excessively high rate, local branches of the PBOC may further raise the down-payment rate and mortgage interest rate for the purchase of a second residential property. In addition, the state will strictly enforce a 20% tax on home sale profits.
- (iii) *Expanding ordinary commodity housing units and increasing the supply of land.* The overall housing land supply in 2013 shall not be lower than the average actual land supply in the past five years. Financial institutions, subject to credit requirements, are to prioritize requests for loans for ordinary commodity housing construction projects in which medium and small housing units constitute 70% or more of the total units in such construction project.

II. LEGAL SUPERVISION RELATING TO THE PROPERTY MANAGEMENT SECTOR IN THE PRC

A. Foreign-invested Property Management Enterprises

According to the Foreign Investment Industrial Guidance Catalogue, property management falls within the category of industries in which foreign investment is permitted. Foreign invested property management enterprises can be set up as a Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly foreign owned enterprise according to the Catalogue and the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises. Foreign invested property management enterprises should obtain approval from the commercial authority and obtain an Approval Certification for a foreign-invested enterprise before registering with the Administration for Industry and Commerce.

Pursuant to the Circular of the General Office of the State Council on Issues Concerning the Further Regulation and Control of the 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) dated January 26, 2011, the municipalities directly under the Central Government, cities specially designated in the State plan, provincial cities and the other cities with excessive or rapid rising real estate prices shall implement strict measures with housing-purchase limitation for a specified period of time. As the general rule, (i) individuals who sell their residential property within five years after their purchase of such property will be charged business taxes based on the full amount of the transfer income; (ii) the minimum down payment for second house of residential family using bank loans or housing provident fund loan is raised to 60% with a minimum lending interest rate of 110% of the benchmark rate; (iii) the PRC government will forfeit the land use rights if a developer fails to obtain the construction permit and commence development for more than two years from the commencement date stipulated in the land grant contract; and (iv) municipalities directly under the Central Government, cities specially designated in the State Plan, provincial capitals and cities with

high housing prices shall make purchase restrictions for a specified period. In principle, (a) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (including new commodity residential houses and second hand houses); and (b) a local residential family who holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family who can not provide the local payment certificates of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses in the relevant administrative regions.

According to the Regulation on Clearly Marking Price in the Sale of Commodity Houses (商品房銷售明碼標價規定) promulgated by NDRC on March 16, 2011, the sale of commercial houses shall mark prices on a per unit basis, and show to the public the relevant fees which will be charged and the other factors which are in relation to the sale price. A commercial house operator shall not charge any additional fees other than those clearly marked during the property sale. After the price is clearly marked, the developer cannot increase the sale price or charge any other fees.

B. Appointment of a Property Management Enterprise

According to the Regulation on Property Management, the general meeting of owners in a property can appoint and dismiss the property management enterprise with affirmative votes of owners holding more than half of the voting rights. Before the formal appointment of a property management enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a property development enterprise) and a property management enterprise.

III. LEGAL SUPERVISION RELATING TO REAL ESTATE INTERMEDIARY SERVICES IN THE PRC

A. Foreign Investment in the Real Estate Intermediate Services Sector

Under the Foreign Investment Industry Guidance Catalogue amended jointly by MOFCOM and the NDRC on December 24, 2011 which took effect from January 30, 2012, transactions in the real estate secondary market and the real estate intermediary or broker companies falls within the category of industries in which foreign investment is subject to restrictions.

The Regulations on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) promulgated by the State Council on February 21, 2002 and effective from April 1, 2002, stipulate that projects with foreign investment that are classified as restricted projects shall be subject to the examination and approval of the corresponding competent departments of the people's governments of the provinces, autonomous regions, municipalities directly under the Central Government and municipalities. At the time of examination and approval, the project must also be reported to the competent departments and administrative authorities at the next highest level. The power to conduct examination and approval for this kind of project may not be granted to any lower level authority.

B. Qualifications for the Real Estate Intermediary Services Sector

The Regulation on the Property Agency Management (房地產經紀管理辦法) promulgated jointly by MOHURD, the NDRC and Ministry of Human Resources and Social Security of the People's Republic of China (MOHRSS) on January 20, 2011 which took effect from April 1, 2016 states that property agencies providing property agency services must have a stipulated amount of qualified brokers.

IV. GENERAL LEGAL SUPERVISION IN THE PRC

Remittance of Renminbi into and outside The PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. In July 2009, China commenced a pilot scheme pursuant to which Renminbi may be used to settle imports and exports of goods between approved enterprises in five designated cities in the PRC, namely Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai, and enterprises in designated offshore jurisdictions such as Hong Kong and Macau. On June 17, 2010, the PRC government promulgated the Notice on Matters Relating to the Expansion of Pilot Areas for RMB Settlement for Cross-border Trade (Yin Fa [2010] No. 186)(《關於擴大跨境貿易人民幣結算試點有關問題的通知》銀發[2010]186號) (“186 Circular”). According to the 186 Circular, (i) imports and exports of goods and services and other current account items might be settled in Renminbi, (ii) the pilot scheme was expanded to cover 20 provinces and regions including Shandong, Liaoning, Tianjin and Inner Mongolia, and (iii) there was no longer any restriction on the offshore jurisdictions that may participate in the pilot scheme. Accordingly, any enterprises in the designated regions and any offshore enterprises may use Renminbi to settle any current account items between them (except, in the case of payments for exports of goods from the PRC, only approved enterprises in the designated PRC regions may remit the Renminbi).

As a new regulation, the 186 Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the 186 Circular and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares and reduction of capital to foreign investors in a foreign currency. However, cross-border Renminbi direct investments and settlements have been approved on a trial basis by relevant PRC authorities. On February 25, 2011, the MOFCOM promulgated the Notice on Issues Concerning the Administration of Foreign Investment (Shang Zi Han 2011 No. 72)(《商務部關於外商投資管理工作有關問題的通知》商資函[2011]72號) (“MOFCOM 72 Notice”), which provides that if a foreign investor intends to make investments in the PRC (whether by way of establishing a new enterprise, increasing the registered capital of an existing enterprise, acquiring an onshore enterprise or providing loan facilities) with Renminbi that the foreign investor generated from cross-border trade settlement or lawfully obtained outside the PRC, the MOFCOM’s prior written consent is required. On June 3, 2011, the PBOC issued the Notice on Clarifying Issues Concerning

Cross-Border Renminbi Transactions (Yin Fa 2011 No. 145) (《中國人民銀行關於明確跨境人民幣業務相關問題的通知》銀發[2011]145號)(“PBOC 145 Notice”), which further provided that, if a foreign investor intends to make direct investment in the PRC with Renminbi, other than the MOFCOM approval, it shall also apply to the branch offices of the PBOC at the sub-provincial level or above for approval. The PBOC will determine whether to grant such approval on a case by case basis.

On October 12, 2011, the MOFCOM promulgated the MOFCOM Circular to further facilitate Renminbi inbound direct investments by foreign investors. On October 13, 2011, the PBOC promulgated the PBOC Measures to set forth rules for settlements of Renminbi inbound direct investments. The MOFCOM Circular and the PBOC Measures provide more detailed rules for cross-border Renminbi direct investments and settlements, and amend or replace certain provisions set forth in the MOFCOM 72 Notice and the PBOC 145 Notice relating to the case-by-case pilot program.

- The MOFCOM Circular stipulates that: (1) the Scope of “offshore Renminbi” that may be used in cross-border Renminbi direct investments includes (i) Renminbi obtained by foreign investors through Renminbi settlements of cross-border trade, Renminbi profits generated in China and remitted outside of China, and Renminbi obtained through share transfer, capital reduction, liquidation and advance recovery of investment; and (ii) offshore Renminbi funds obtained by foreign investors from other legitimate sources, including without limitation, Renminbi raised through issuance of Renminbi bonds or stocks outside of China; (2) Cross-border Renminbi direct investments and re-investments by foreign-invested enterprises must comply with the relevant PRC laws and regulations on foreign investments. Such transactions must also comply with national industrial policies on foreign investments, and undergo national security reviews on mergers and acquisitions by foreign investors as well as anti-trust reviews. Cross-border Renminbi direct investments in the real estate industry and cross-border Renminbi strategic investments in PRC domestic-listed companies must comply with the administrative regulations on foreign investments in these industries currently in force; (3) Cross-border Renminbi direct investments may not be invested directly or indirectly into negotiable securities or financial derivatives (other than strategic investments in PRC domestic-listed companies that have been approved by relevant authorities), or be used as entrusted loans; and (4) In principle, the approval procedures for cross-border Renminbi direct investments are consistent with the existing approval scheme of foreign direct investments. However, for investments in the amount of RMB300 million or more and investments relating to (i) financial guarantee, finance lease, micro financing, auction and similar businesses, (ii) foreign-invested investment companies, foreign-invested venture capital investment or equity investment enterprises, and (iii) cement, iron and steel, electrolytic aluminum, shipbuilding and similar industries that are subject to macro-control measures, the provincial level counterparts of MOFCOM must submit the application documents to MOFCOM for its review and approval before issuing the official approval.
- The PBOC Measures provides that: (1) After examining the approval or filing documents issued by MOFCOM, its local counterparts or other relevant regulatory authorities in relation to cross-border Renminbi direct investments, domestic banks are permitted to process foreign investors’ request for remittance of offshore Renminbi funds into China. The case-by-case approval procedures required under the PBOC 145 Notice are no longer applicable; (2) With respect to a foreign investor’s application for outbound remittance of Renminbi profits or funds obtained through capital reduction, share transfer, liquidation and advance recovery of investment, domestic banks may process such request upon examining the resolutions approving the distribution of profits, the approval or filing documents of the relevant authorities regarding capital reduction, share transfer, liquidation and advance recovery of investment, and the tax certificates; (3) For the purpose of calculating the total amount of

offshore debt, loans denominated in Renminbi and foreign currencies borrowed by foreign-invested enterprises from overseas shareholders and affiliates as well as overseas financial institutions must be aggregated. Foreign-invested enterprises must apply to domestic banks to open a general Renminbi deposit account to deposit Renminbi loans borrowed offshore. With respect to the request of a foreign-invested enterprise to use its onshore Renminbi funds to repay offshore Renminbi loans, domestic banks may process such remittance request after examining the loan contract, the payment order and the tax certificates; and (4) Foreign investors, foreign-invested enterprises or their Chinese shareholders must open Renminbi special purpose accounts to deposit Renminbi funds relating to cross-border Renminbi direct investments, and cash transactions may not be conducted under this type of account.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorized as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

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 our board:

Name	Age	Position
PAN Jun (潘軍)	49	Chairman, executive director and chief executive officer
ZENG Jie, Baby (曾寶寶)	47	Executive director
KE Kasheng (柯卡生)	56	Executive director
ZHANG Huiming (張惠明)	41	Executive director
CHEN Xinyu (陳新禹)	51	Executive director
HO Man (何敏)	50	Independent non-executive director
LIAO Jianwen (廖建文)	52	Independent non-executive director
GUO Shaomu (郭少牧)	53	Independent non-executive director
WONG Pui-sze, Priscilla, JP (王沛詩)	59	Independent non-executive director

Directors

Executive Directors

Mr. PAN Jun (潘軍), aged 49, is the chairman of the Board, an executive Director, the chief executive officer, the chairman of the Company's nomination committee, and a member of the Company's remuneration committee. He joined the Group in 1999 and is responsible for the overall operation of the Group's projects, the formulation of our development strategies, as well as supervising the project planning, business and operation management of the Group. He is also currently the president of Fantasia Group (China) Company Limited, the president of Shenzhen Fantasia Real Estate Group Limited and the director of a number of the Group's subsidiaries including a non-executive director of Colour Life. Prior to joining the Group, Mr. Pan was the project manager, the manager of the marketing department, the manager of the valuation department and the assistant to the general manager of World Union Real Estate Consultancy (Shenzhen) Ltd. (世聯地產顧問(深圳)有限公司). Mr. Pan obtained a Bachelor's degree in Conservancy and Hydropower Engineering from Chengdu University of Science and Technology (成都科技大學), now Sichuan University (四川大學), in 1992 and holds an EMBA degree from Tsinghua University. Mr. Pan is also a registered property valuer in China and a member of the Shenzhen Institution of Real Estate Appraisers (深圳市不動產估價學會).

Ms. ZENG Jie, Baby (曾寶寶), is an executive Director of the Company. She is also a member of the Company's nomination committee. Ms. Zeng is one of the controlling shareholders and the largest shareholder of the Company.

Mr. KE Ka Sheng (柯卡生), aged 56, is the executive director of the Company. Mr. Ke is currently the executive director of Fantasia Group (China) Co., Limited, a wholly-owned subsidiary of the Group, and is responsible for the coordination and development of the investment business, financing business, capital operation-related businesses of the Company.

Prior to joining the Company, Mr. Ke started his career at the Currency Issue Department of Guangdong Branch of People's Bank of China in July 1984 and held various positions in People's Bank of China and China Banking Regulatory Commission, including deputy chief and chief of the Currency Issue Department of Guangdong Branch of People's Bank of China from June 1989 to April 1992, deputy director of the General Office of Guangdong Branch of People's Bank of China from April 1992 to April 1996, director of the Comprehensive Planning Division of Guangdong Branch of People's Bank of China from April 1996 to November 1996, president of Shantou Branch of People's Bank of China

from November 1996 to April 2000, director of the Internal Audit Division and vice president of Guangzhou Branch of People's Bank of China from April 2000 to July 2003, member of the preparation team and deputy director of the Guangdong Office of China Banking Regulatory Commission from July 2003 to May 2006, and director of the Non-banking Financial Institution Regulatory Department of China Banking Regulatory Commission from May 2006 to October 2012, an executive director and the president of China Huarong Asset Management Co. Ltd. from October 2012 to September 2017. Mr. Ke obtained a bachelor degree from the Central Institute of Finance and Economics (now known as the Central University of Finance & Economics) in July 1984, a master degree in business operation from the Aichi University of Japan in March 1995, and obtained an MBA degree for senior management from Cheung Kong Graduate School of Business in September 2007.

Mr. ZHANG Huiming (張惠明), aged 41, is the executive director of the Company. Mr. Zhang is currently the executive director, vice president and chief financial officer of Fantasia Group (China) Co., Limited, a wholly-owned subsidiary of the Company. He is responsible for the overall financial management, capital management, investment and operation management of the Company. Prior to joining the Company, Mr. Zhang worked in CITIC Group from July 1999 to January 2014, successively served as deputy general manager of the Planning and Headquarters Finance Department of CITIC Real Estate, assistant general manager of Guangzhou Company, and project general manager; he worked in Agile Group Holdings Limited from February 2014 to February 2019, successively served as assistant to chairman and president, director of the finance center of the real estate group, vice president of the real estate group and general manager of the financial center and strategic investment center, in charge of the finance, strategy, investment, and urban renewal businesses. Mr. Zhang obtained a bachelor's degree in economics from University of International Business and Economics in 2002.

Mr. CHEN Xinyu (陳新禹), aged 51, the executive director of the Company, joined the Group in May 2019. Mr. Chen is currently the chief financial officer of the Group and is responsible for capital operation and planning management, listed company's investor relations and information disclosure management-related business. Prior to joining the Group, Mr. Chen was the deputy general manager of the Finance Department of Country Garden Holdings Company Limited from 2015 to 2019. Before this, Mr. Chen was the investment director of China Overseas Qingyi Care Services Co., Ltd. (中海親頤養老服務有限公司); and later served as an analyst of Seagate Global Advisors LLC. Redondon Beach and as the manager of bond trading portfolio of Godesk LLC., Elsegando in USA. Mr. Chen once served as the director of the Finance Department of China State Construction Engineering Corporation. Mr. Chen graduated from Shijiazhuang Tiedao Institute in financial accounting and holds a master's degree in corporate finance from Xi'an Jiaotong University and a master's degree in business administration from the University of Illinois at Chicago. Mr. Chen has nearly 30 years of experience in investment, capital market and corporate financing related activities.

Independent Non-executive Directors

Mr. HO Man (何敏), aged 50, is an independent non-executive Director of the Company. He is also the chairman of the audit committee and a member of each of the remuneration committee and nomination committee of the Company respectively. Mr. Ho has over 19 years of working experience in private equity investment and finance and is currently the managing director of an investment holding company. Prior to that, Mr. Ho served as an executive partner representative of a Chengdu-based private equity investment fund from December 2011 to May 2014. Mr. Ho worked for a Hong Kong-based private fund management company during January 2010 to December 2013 and was the managing director and head of China growth and expansion capital of CLSA Capital Partners from August 1997 to October 2009. Mr. Ho was the non-executive director of SCUD Group Limited from December 2006 to October 2009 and Shanghai Tonva Petrochemical Co., Ltd. (currently known as Shanghai Dasheng Agriculture Finance Technology Co., Ltd) from September 2008 to October 2009, both being companies

listed on the Main Board of the Stock Exchange. He was the independent director of Shenzhen Forms Syntron Information Co. Ltd, a company listed on the ChiNext of Shenzhen Stock Exchange, from February 2012 to February 2018.

Mr. Ho has been an independent non-executive director of Fu Shou Yuan International Group Limited, since December 2013; an independent non-executive director of China Fire Safety Enterprise Group Limited, since July 2015; an independent non-executive director of Infinity Financial Group (Holdings) Limited since November 2016; an independent non-executive director of Midas International Holdings Limited since January 2018; and an independent non-executive director of Wanjia Group Holdings Limited since February 2018, all being companies listed on the Main Board of the Stock Exchange. Mr. Ho has also been a director of Shenzhen Daixiang Space Construction Co., Ltd., a company listed on the National Equities Exchange and Quotations, since September 2015.

Mr. Ho was awarded an EMBA degree from Tsinghua University and a master's degree in finance from the London Business School. He is also a Chartered Financial Analyst and a Certified Public Accountant.

Dr. LIAO Jianwen (廖建文), aged 52, is an independent non-executive Director of the Company. He is also a member of each of the Company's audit committee, remuneration committee and nomination committee, respectively. Dr. Liao has extensive business research and teaching experience in the United States, Hong Kong and the People's Republic of China (the "PRC"). He is well known for his cross disciplinary research and consulting in strategy, innovation and entrepreneurship. Dr. Liao gained early entrepreneurial experience in the biotech industry. He has been an associate dean and professor of managerial practice in strategy and innovation at the Cheung Kong Graduate School of Business (長江商學院) since January 2012. Prior to that, he was an associate professor at the Stuart School of Business in Illinois Institute of Technology from 2006 to 2012. In 2001, Dr. Liao was also a visiting professor at Hong Kong University of Science and Technology. He received a Doctorate degree in business administration from Southern Illinois University of Carbondale (USA) in August 1996, a master degree in economics from Renmin University of China (中國人民大學) in February 1991, and a Bachelor's degree in industry engineering from Northeastern University (東北大學)(formerly known as Northeastern Institute of Technology (東北工學院)) in July 1988. Dr. Liao served as an independent non-executive director of Qihoo 360 whose shares were traded at New York Stock Exchange and an independent non-executive director of China Mengniu Dairy Company Limited whose share were traded on the Main Board of the Stock Exchange. He is currently an independent non-executive director of Colour Life and 361 Degrees International Limited, the companies are listed on the Main Board of the Stock Exchange, an independent director of China Merchants Shekou Industrial Zone Holdings Co., Ltd, a company listed on the Shenzhen Stock Exchange, and the Chief Strategy Officer JD Group, a company listed on the NASDAQ.

Mr. GUO Shaomu (郭少牧), aged 53, is an independent non-executive Director of the Company. He is also a member of each of the audit committee, remuneration committee and nomination committee, respectively. Mr. Guo is currently vice president of S Fund International. He has over 13 years of experience in investment banking in Hong Kong. From February 2000 to February 2001, Mr. Guo served as an associate director of corporate finance of Salomon Smith Barney, an investment bank principally engaged in providing financial services (an investment banking arm of Citigroup Inc.), where he was primarily responsible for supporting the marketing and execution efforts of the China team. From March 2001 to September 2005, Mr. Guo served as an associate director of global investment banking of HSBC Investment Banking, an investment bank principally engaged in providing financial services, where he was primarily responsible for the execution of China-related transactions. From October 2005 to April 2007, Mr. Guo served as a vice president and a director of the real estate team of J.P. Morgan Investment Banking Asia, an investment bank principally engaged in providing financial services, where

he was primarily responsible for marketing efforts covering the real estate sector in China. From April 2007 to April 2013, Mr. Guo served as a director and a managing director of the real estate team of Morgan Stanley Investment Banking Asia, an investment bank principally engaged in providing financial services, where he was one of the key members responsible for the business in the real estate sector in the Greater China region. Since January 2014, Mr. Guo has been an independent non-executive director of Galaxycore Inc., a leading China-based fabless image sensor company targeting the global mobile device and consumer electronics market. Since June 2014, Mr. Guo has been an independent non-executive director of Yida China Holdings Limited (a company listed on the Main Board the Stock Exchange), a real estate developer based in Dalian, China. Mr. Guo received his bachelor's degree in electrical engineering from Zhejiang University in July 1989, a master's degree in computer engineering from the University of Southern California in May 1993 and a master's degree in business administration from the School of Management of Yale University in May 1998.

Ms. WONG Pui-sze, Priscilla, JP (王沛詩), aged 59, is an independent non-executive Director of the Company. She is also a member of each of the Company's audit committee, remuneration committee and nomination committee, respectively. Ms. Wong was appointed a Justice of the Peace in 2005. She is a member of Chinese People's Political Consultative Conference, Shanghai Committee in the PRC. In Hong Kong, Ms. Wong serves as the Chairman the Minimum Wage Commission, the Chairman of Employees Compensation Assistance Fund Board, a member of Court as well as Council of University of Hong Kong, a member of the Hospital Authority Board, a member of Financial Reporting Review Panel. Ms. Wong graduated with a Bachelor of Law (Hons) degree from the University of Hong Kong and a Master of Laws degree from The London School of Economics and Political Science of The University of London. She was called to the Bar in Hong Kong in 1985 and is a practicing barrister in Hong Kong. Ms. Wong is a mediator of Centre for Effective Dispute Resolution and an arbitrator of China International Economic and Trade Arbitration Commission. She is also an advocate and solicitor admitted in Singapore. Ms. Wong has been appointed as an independent non-executive director of Sinopec Kantons Holdings Limited, a company listed on the main board of Hong Kong Exchange and Clearing Limited, since March 22, 2018.

Senior Management's Profile

Ms. ZHANG Xiaofang (張曉芳), aged 51, is the deputy chief executive of Fantasia Group (China) Co., Limited, and is responsible for managing the Chief Executive Office (總裁辦) of China Group (中國集團), human resources department, Charity Foundation (公益基金會) and Qiertang Company (七二唐公司). Ms. Zhang joined the Group in December 2016. Prior to joining the Group, she was the deputy chief executive of Qianhai Fosun Ruizhe Asset Management Co., Ltd. (前海複星瑞哲資產管理有限公司) from 2014 to 2016, senior management consultant (高級管理顧問) of Jin Tong Asset Management Company Limited (金通資產管理有限責任公司) from 2013 to 2014; deputy chief executive and acting CEO of Chinalin Securities Co., Ltd. (華林證券有限責任公司) from 2011 to 2013, assistant general manager (administrative planning) of Ping An Life Insurance, Harbin Branch, general manager of human resources centre (staff service) of Ping An Insurance, general manager of human resources department of Ping An Securities from 1999 to 2011, deputy librarian (副館長) of the Heilongjiang University Yichun Campus Library (黑龍江大學分校圖書館) from 1993 to 1999 and staff member of Yichun Municipal Archives Bureau (伊春市檔案局) from 1990 to 1993. Ms. Zhang obtained her Bachelor's degree in Library Science (圖書情報) from Heilongjiang University in 1990.

Mr. LIU Zongbao (劉宗保), aged 51, is the president of Shenzhen Fantasia Real Estate Group Company Limited and is also the director of a number of subsidiaries of the Group. Mr. Liu joined the Group in March 2005 and served as the sales director of our Company and deputy general manager and general manager of the Chengdu branch of Fantasia Real Estate Group, and also vice president of Shenzhen Fantasia Real Estate Group Company Limited. Prior to joining our Group, he was deputy

general manager of Shenzhen Zhonglian Real Estate Development Co., Ltd. (深圳市中聯房地產企業發展有限公司) from 2004 to 2005 and manager of the sales and marketing department of Shenzhen Xinghe Real Estate Development Co., Ltd. (深圳市星河房地產開發公司) from 2001 to 2003. Mr. Liu received his Bachelor's degree in construction management engineering from Southeast University (東南大學) in 1991. He is now studying an EMBA in China Europe International Business School.

Mr. CHEN Xiangming (陳湘明), aged 50, is the president of Shenzhen Home E&E Commercial Services Group Co. Ltd. (深圳市美易家商務服務集團有限公司). He joined the Group in July 2012 and is responsible for the overall management of Shenzhen Home E&E Commercial Services Group Co. Ltd. Prior to joining the Group, he was the general manager of Shenzhen Baopu Property Service Co., Ltd. (深圳市抱樸物業服務有限公司) from 2011 to 2012, general manager of Shenzhen Terra Property Management Service Co., Ltd. (深圳市泰然物業管理服務有限公司) from 2007 to 2011, general manager of Shenzhen Excellence Property Management Co., Ltd. (深圳市卓越物業管理有限公司) from 2006 to 2007, and vice-general manager of Shenzhen Fantasia Property Management Co., Ltd. (深圳市花樣年物業管理有限公司) from 2002 to 2006. Mr. Chen completed his tertiary education in Safety Engineering from Hunan University Hengyang Campus in 1992.

Mr. QIU Zhidong (邱志東), aged 53, is the president of Shenzhen Fantasia Business Management Company Limited (深圳花樣年商業管理有限公司). Mr. Qiu joined the Group in June 2013 and is wholly responsible for the daily operation and management of Shenzhen Fantasia Business Management Company Limited. Prior to joining the Group, he was the vice president of Shenzhen Jinguanghua Shiye Group (深圳金光華實業集團) from 2005 to 2013, managing director of Shenzhen Jinguanghua Business Company Limited (深圳市金光華商業有限公司) from 2003 to 2005, general manager of Shenzhen Modern Friendship Co., Ltd (現代友誼股份有限公司)/Shenzhen Friendship Department Store Company Limited (深圳友誼城百貨有限公司) from 1997 to 2003, deputy director of Cadres Division of Organization Department (組織部幹部處) and Managerial Division of Corporate Leading Officers (企業領導人員管理處) of Shenzhen Municipal Committee of CPC (中共深圳市委) from 1992 to 1997, officer of Cadre Department of Organization Department of Chaozhou Municipal Committee of CPC (中共潮州市委組織部幹部科) from 1988 to 1992 and teacher of Chaozhou High School (潮州高級中學) in Guangdong Province in 1988. Mr. Qiu received a Master's degree in Business Administration from Hong Kong Baptist University in 2003 and a Bachelor's degree in Computer Science from Hanshan Normal University (韓山師範學院) in Guangdong Province in 1988.

Mr. DENG Bo (鄧波), aged 51, the chairman of the supervisory committee of Fantasia China Group, responsible for the management of the audit department and the monitoring team. Mr. Deng resigned as executive director of the Company on 30 May 2019. Mr. Deng graduated from Hunan University in June 1989 with a Bachelor's degree in Architectural Studies. He also earned a Master's degree in Architectural Studies from the same university in July 1995. Prior to joining the Company, Mr. Deng held the position of investment development director of Oceanwide Real Estate Group from December 1998 to April 2010; from May 1997 to November 1998, he served as a design director of Shenzhen Grand Field Real Estate Development Co., Limited (深圳市鈞濠房地產開發有限公司); from July 1995 to May 1997, he served as an architectural designer of Shenzhen Nanyou Engineering Design Limited Company; and from August 1990 to March 1992, he served as an architectural designer of Changsha Institute of Architectural Design.

Mr. HUANG Wei (黃瑋), aged 49, was appointed as the chief executive officer of Colour Life on 19 September 2019, and appointed as an executive director of Colour Life on 20 July 2018. He joined the Group in 2015 and successively served as the general manager of Kaiyuan International Property, the president of Wanxiangmei Property, the general manager of Wan Community (萬社區), and the senior vice president and the executive president of Colour Life Services Group. Mr. Huang has over 22 years of experience in property management. Prior to joining the Group, he served in Shenzhen Kaiyuan

International Property Management Co., Ltd., (深圳市開元國際物業管理有限公司)(which is principally engaged in property management), successively as a director, deputy general manager and general manager from 2002 to 2015. He served in China Overseas Property Management Limited (which is principally engaged in property development), successively as a director, chief engineer and management representative from 1997 to 2002. He served in China Overseas Building Development (Shenzhen) Co., Ltd., successively as an engineer and manager from 1992 to 1997. Mr. Huang obtained a Bachelor's degree in civil engineering from Tongji University in July 1992, and obtained a MBA certificate from the School of Economics and Management at Tsinghua University in July 2018.

Board Committees

Audit Committee

Our Company established an audit committee on October 12, 2009 with written terms of reference as amended, in compliance with the Listing Rules and the Board adopted a revised set of terms of reference of the Audit Committee on December 22, 2015 and 27 March 2019. The audit committee is responsible for the engagement of the external auditor, review of the Group's financial information and oversight of the Group's financial reporting system and internal control and risk management procedures and reviewing the Group's financial and accounting policies and practices.

The audit committee comprises four members, namely, Mr. HO Man (何敏), Dr. Liao Jianwen (廖建文), Ms. Wong Pui-sze, Priscilla, JP (王沛詩) and Mr. Guo Shaomu (郭少牧). They are all independent non-executive directors. The audit committee is chaired by Mr. HO Man (何敏).

Remuneration Committee

Our Company established a remuneration committee on October 12, 2009 with written terms of reference as amended, in compliance with the Listing Rules and the Board adopted a revised set of terms of reference of the remuneration committee on March 12, 2012. The remuneration committee is responsible for making recommendations to the board on the Company's remuneration policy and structure for all directors and senior management and on the establishment of a formal and transparent procedure for developing such policy.

The remuneration committee comprises an executive Director, Mr. Pan Jun, and four independent non-executive directors, namely, Mr. GUO Shaomu (郭少牧), Mr. HO Man (何敏), Dr. LIAO Jianwen (廖建文) and Ms. WONG Pui-sze, Priscilla, JP (王沛詩). The remuneration committee is chaired by Mr. GUO Shaomu (郭少牧).

Nomination Committee

Our Company established a nomination committee on October 12, 2009 with written terms of reference as amended in compliance with the Listing Rules and the Board adopted a revised set of terms of reference of the nomination committee on August 30, 2013 and 27 March 2019. The nomination committee is responsible for reviewing the structure, size and composition of the board, assessing the independence of the independent non-executive directors and making recommendations to the board on the appointment and re-appointment of directors.

The nomination committee comprises six members, namely, Mr. PAN Jun (潘軍), Mr. HO Man (何敏), Ms. ZENG Jie, Baby (曾寶寶), Dr. LIAO Jianwen (廖建文), Ms. WONG Pui-sze, Priscilla, JP (王沛詩) and Mr. GUO Shaomu (郭少牧). The nomination committee is chaired by Mr. PAN Jun (潘軍).

Compensation of Directors and Senior Management

The Group's remuneration policies are formulated based on qualifications, years of experiences and the performance of individual employees and are reviewed regularly.

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us during each of the three years ended December 31, 2017, 2018 and 2019 to those persons who have been or are our directors, was approximately RMB17.7 million, RMB17.7 million and RMB28.1 million (US\$4.0 million), respectively.

Share Option Scheme

We adopted our share option scheme on October 27, 2009 in order to reward eligible participants who contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company. Eligible participants include our directors and employees and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of our Group who our board of directors considers, in its sole discretion, have contributed or will contribute to the Group. We have granted options to certain of our directors and employees and, as of December 31, 2019, a total of 142,660,000 share options were granted; 4,204,000 share options was lapsed and 4,726,000 share options had been exercised during the year ended December 31, 2019. As of December 31, 2019, the outstanding share options were 75,098,000 in total.

Directors' and Chief Executives' Interests

As of December 31, 2019, the interests and short positions of our directors and chief executives in the shares and underlying shares of the Company, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO") (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Director	Nature of Interests	Number of Shares Held	Interest in Underlying Shares	Approximate Percentage of Shareholding
Ms. Zeng Jie, Baby	Interest of controlled corporation	3,314,090,500 ⁽¹⁾	–	57.46%
	Beneficial owner	–	9,980,000 ⁽²⁾	0.17%
Mr. Pan Jun	Beneficial owner	–	9,980,000 ⁽²⁾	0.17%
Mr. Lam Kam Tong	Beneficial owner	–	2,630,800 ⁽²⁾⁽³⁾	0.05%
Mr. Ho Man	Beneficial owner	–	1,600,000 ⁽²⁾	0.03%
Mr. Huang Ming	Beneficial owner	–	1,600,000 ⁽²⁾⁽³⁾	0.03%

Notes:

- (1) Fantasy Pearl International Limited ("Fantasy Pearl") is owned as to 80% by Ice Apex Limited ("Ice Apex") and 20% by Graceful Star Overseas Limited ("Graceful Star"). While Ice Apex is wholly owned by Ms. Zeng Jie, Baby, Ms. Zeng Jie, Baby is deemed to be interested in the shares of the Company held by Fantasy Pearl for the purpose of Part XV of the SFO.
- (2) The relevant Director was granted options to subscribe for such number of shares of the Company under the share option scheme on August 29, 2011 and October 16, 2012. See "– Share Option Scheme.
- (3) Mr. Lam Kam Tong ("Mr. Lam") exercised 166,200 share options on May 30, 2019, and Mr. Lam and Mr. Huang Ming resigned as non-executive director and independent non-executive director on May 30, 2019, respectively.
- (4) As of December 31, 2019, the number of issued shares of the Company was 5,767,670,304.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have entered into financing agreements with various financial institutions and enterprises. As of December 31, 2019, our total borrowings (excluding the May 2016 Notes, the October 2016 Notes, the July 2017 Notes, the March 2018 Notes, the First December 2018 Notes, the Second December 2018 Notes, the March 2019 Notes, the April 2019 Notes, the July 2019 Notes, the 2015 Onshore Bonds, the 2016 Onshore Bonds and the 2017 Onshore Bonds) amounted to RMB13,985.4 million (US\$2,008.9 million). Subsequent to December 31, 2019, we also issued offshore and onshore notes and corporate bonds and entered into short-term financings in various forms, including, among others, the issuance of the January 2020 Notes on January 9, 2020, the issuance of the June 2020 Notes on June 1, 2020 and the issuance of the July 2020 Notes on July 28, 2020. Set forth below is a summary of the material terms and conditions of the material loans and other indebtedness.

PRC Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with local branches of various PRC banks and financial institutions, including Industrial and Commercial Bank of China, Bank of China, China Everbright Bank, Bank of China, CCB (Asia), China Merchants Bank, Shanghai Pudong Bank, China Minsheng Bank, Rural Commercial Bank. These loans include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from one year to eight years, which generally correspond to the construction periods of the particular projects. As of December 31, 2019, the aggregate outstanding amount under these loans totaled approximately RMB13,985 million (US\$2,009 million), of which RMB6,430 million (US\$924 million) was due within one year and RMB7,555 million (US\$1,085 million) was due between one and five years. Our PRC loans are typically secured by land use rights, properties and bank deposits as well as guaranteed by certain of our other PRC subsidiaries.

Interest

The principal amounts outstanding under the PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2019, the weighted average interest rate on the aggregate outstanding amount of our PRC loans was 8.78% per annum.

Covenants

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

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

- transferring part or all of their liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing of assets; and
- incurring other indebtedness that may adversely affect their ability to repay their loans.

Events of Default

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

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks and financial institutions in connection with some of the PRC loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these loans. Certain of our PRC loans are guaranteed by our executive director and controlling shareholder, Ms. Zeng Jie, Baby and/or our chairman, executive director and chief executive officer, Mr. Pan Jun. Further, as of December 31, 2019, RMB11,283.9 million (US\$1,620.8 million) of the PRC loans were secured by land use rights, properties held by the subsidiary borrowers and/or our other PRC subsidiaries.

Dividend Restrictions

Pursuant to the loan agreements with certain PRC banks, several of our PRC subsidiaries also agreed not to distribute any dividend:

- before prior notice has been made to or written approval has been obtained (if the proposed dividend exceeds a certain percentage of such subsidiary's net profit) from the lender; or
- if after-tax net profit is zero or negative or is insufficient to meet cumulative losses in prior years or if pre-tax net profit has not been used to repay principal interest and costs on the relevant loan due in the same year or is insufficient to repay principal, interest and costs on the relevant loan due on the next payment date.

One of such PRC subsidiaries will be designated as an Unrestricted Subsidiary under the Indenture governing the Notes.

October 2016 Notes

On October 4, 2016, we entered into an indenture (as amended and supplemented from time to time, the "October 2016 Indenture") pursuant to which we issued US\$400,000,000 principal amount of the 7.375% Senior Notes due 2021. On December 29, 2016, we issued an additional US\$100,000,000 of the 7.375% Senior Notes due 2021. As of the date of this offering memorandum, the entire principal amount of the 2016 Notes remained outstanding.

Guarantee

Our obligations under the October 2016 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the October 2016 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the October 2016 Notes.

Collateral

In order to secure the obligations under the October 2016 Notes, the Company and the Subsidiary Guarantors under the October 2016 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the October 2016 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the October 2016 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the October 2016 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the October 2016 Indenture. The trustee for the October 2016 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The October 2016 Notes bear an interest rate of 7.375% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the October 2016 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 October 2016 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the October 2016 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the October 2016 Indenture. If an event of default occurs and is continuing, the trustee under the October 2016 Indenture or the holders of at least 25% of the outstanding October 2016 Notes may declare the principal of the October 2016 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding October 2016 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the October 2016 Notes is the interest payment date on or nearest to October 4, 2021. At any time and from time to time on or after October 4, 2019, the Company may at its option redeem the October 2016 Notes, in whole or in part, at redemption prices set forth in the terms and conditions of the October 2016 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time prior to October 4, 2019, the Company may at its option redeem the October 2016 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2016 Notes plus the 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 October 4, 2019, the Company may redeem up to 35% of the aggregate principal amount of the October 2016 Notes at a redemption price of 107.375% of the principal amount of the October 2016 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions. Subject to certain exceptions, the Company may redeem the October 2016 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 (including any Additional Amounts), 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 or certain other circumstances.

July 2017 Notes

On July 5, 2017, we entered into an indenture (as amended and supplemented from time to time, the “July 2017 Indenture”) pursuant to which we issued US\$300,000,000 principal amount of the 7.95% Senior Notes due 2022. As of the date of this offering memorandum, the entire principal amount of the July 2017 Notes remained outstanding.

Guarantee

Our obligations under the July 2017 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the July 2017 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the July 2017 Notes.

Collateral

In order to secure the obligations under the July 2017 Notes, the Company and the Subsidiary Guarantors under the July 2017 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the July 2017 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the July 2017 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the July 2017 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the July 2017 Indenture. The trustee for the July 2017 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes, the holders of the July 2017 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The July 2017 Notes bear an interest rate of 7.95% per annum, payable in arrears on January 5, 2017 and July 5 of each year.

Covenants

Subject to certain conditions and exceptions, the July 2017 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 July 2017 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the July 2017 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the July 2017 Indenture. If an event of default occurs and is continuing, the trustee under the July 2017 Indenture or the holders of at least 25% of the outstanding July 2017 Notes may declare the principal of the July 2017 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding July 2017 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the July 2017 Notes is the interest payment date on or nearest to July 5, 2022.

At any time and from time to time on or after July 5, 2020, the Company may at its option redeem the July 2017 Notes, in whole or in part, at redemption prices set forth in the terms and conditions of the July 2017 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time prior to July 5, 2020, the Company may at its option redeem the July 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the July 2017 Notes plus the 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 July 5, 2020, the Company may redeem up to 35% of the aggregate principal amount of the July 2017 Notes at a redemption price of 107.95% of the principal amount of the July 2017 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions. Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the July 2017 Notes, we must make an offer to repurchase all July 2017 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.

March 2018 Notes

On March 8, 2018, we entered into an indenture (as amended and supplemented from time to time, the “March 2018 Indenture”) pursuant to which we issued US\$350,000,000 principal amount of the 8.375% Senior Notes due 2021. On March 16, 2018, we issued an additional US\$100,000,000 of the 8.375% Senior Notes due 2021. On May 7, we issued an additional US\$150,000,000 of the 8.375% Senior Notes due 2021. In January 2020, we offered to repurchase for cash part of the March 2018 Notes. Upon the completion of the Tender Offer on January 21, 2020 and up to the date of this offering memorandum, the March 2018 Notes in the aggregate principal amount of US\$520,001,000 remains outstanding.

Guarantee

Our obligations under the March 2018 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the March 2018 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the March 2018 Notes.

Collateral

In order to secure the obligations under the March 2018 Notes, the Company and the Subsidiary Guarantors under the March 2018 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the March 2018 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the March 2018 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the March 2018 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the March 2018 Indenture. The trustee for the March 2018 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the February 2018 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The March 2018 Notes bear an interest rate of 8.375% per annum, payable in arrears on September 8, and March 8, each year.

Covenants

Subject to certain conditions and exceptions, the March 2018 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 March 2018 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the March 2018 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the March 2018 Indenture. If an event of default occurs and is continuing, the trustee under the March 2018 Indenture or the holders of at least 25% of the outstanding March 2018 Notes may declare the principal of the March 2018 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding March 2018 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the March 2018 Notes is the interest payment date on or nearest to March 8, 2021.

At any time prior to the March 8, 2021, we may at our option redeem the March 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the March 2018 Notes plus a 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 March 8, 2021, we may redeem up to 35% of the March 2018 Notes, at a redemption price of 108.375% of the principal amount of the March 2018 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of capital stock of the Company.

Second December 2018 Notes

On December 18, 2018, we entered into an indenture (as amended and supplemented from time to time, the “Second December 2018 Indenture”) pursuant to which we issued US\$130,000,000 principal amount of the 15.0% Senior Notes due 2021. We further issued on December 28, 2018 and January 31, 2019 additional notes which were consolidated and formed a single class with the notes issued on December 18, 2018. The total outstanding amount of the Second December 2018 Notes is US\$300,000,000. As of the date of this offering memorandum, the entire principal amount of the Second December 2018 Notes remained outstanding.

Guarantee

Our obligations under the Second December 2018 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the Second December 2018 Indenture. Each of the 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 Second December 2018 Notes.

Collateral

In order to secure the obligations under the Second December 2018 Notes, the Company and the Subsidiary Guarantors under the Second December 2018 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the Second December 2018 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the Second December 2018 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the Second December 2018 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the Second December 2018 Indenture. The trustee for the Second December 2018 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The Second December 2018 Notes bear an interest rate of 15.0% per annum, payable in arrears on December 18 and June 18 of each year.

Covenants

Subject to certain conditions and exceptions, the Second December 2018 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 Second December 2018 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the Second December 2018 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the Second December 2018 Indenture. If an event of default occurs and is continuing, the trustee under the Second December 2018 Indenture or the holders of at least 25% of the outstanding Second December 2018 Notes may declare the principal of the Second December 2018 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding Second December 2018 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the Second December 2018 Notes is the interest payment date on or nearest to December 18, 2021.

At any time prior to December 18, 2021, the Company may at its option redeem the Second December 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Second December 2018 Notes plus the 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 December 18, 2021, the Company may redeem up to 35% of the aggregate principal amount of the Second December 2018 Notes at a redemption price of 115.0% of the principal amount of the Second December 2018 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the Second December 2018 Notes, we must make an offer to repurchase all Second December 2018 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.

March 2019 Notes

On March 11, 2019, we entered into an indenture (as amended and supplemented from time to time, the “March 2019 Indenture”) pursuant to which we issued CNY1,000,000,000 principal amount of the 11.875% Senior Notes due 2020. As of the date of this offering memorandum, the entire principal amount of the March 2019 Notes remained outstanding.

Guarantee

Our obligations under the March 2019 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the March 2019 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the March 2019 Notes.

Collateral

In order to secure the obligations under the March 2019 Notes, the Company and the Subsidiary Guarantors under the March 2019 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the March 2019 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the March 2019 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the March 2019 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the March 2019 Indenture. The trustee for the March 2019 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes, the holders of the Second December 2018 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The March 2019 Notes bear an interest rate of 11.875% per annum, payable in arrears on September 11, 2019, March 11, 2020 and September 11, 2020.

Covenants

Subject to certain conditions and exceptions, the March 2019 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 March 2019 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the March 2019 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the March 2019 Indenture. If an event of default occurs and is continuing, the trustee under the March 2019 Indenture or the holders of at least 25% of the outstanding March 2019 Notes may declare the principal of the March 2019 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding March 2019 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the March 2019 is the interest payment date on or nearest to September 11, 2020.

At any time prior to September 11, 2020, the Company may at its option redeem the March 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the March 2019 plus the 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 September 11, 2020, the Company may redeem up to 35% of the aggregate principal amount of the March 2019 Notes at a redemption price of 111.875% of the principal amount of the March 2019 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the March 2019 Notes, we must make an offer to repurchase all March 2019 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.

April 2019 Notes

On April 17, 2019, we entered into an indenture (as amended and supplemented from time to time, the “April 2019 Indenture”) pursuant to which we issued US\$200,000,000 principal amount of the 11.75% Senior Notes due 2022. We further issued on August 5, 2019 additional notes which were consolidated and formed a single class with the notes issued on April 17, 2019. The total outstanding amount of the April 2019 Notes is US\$300,000,000. As of the date of this offering memorandum, the entire principal amount of the April 2019 Notes remained outstanding.

Guarantee

Our obligations under the April 2019 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the April 2019 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the April 2019 Notes.

Collateral

In order to secure the obligations under the April 2019 Notes, the Company and the Subsidiary Guarantors under the April 2019 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the April 2019 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the April 2019 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the April 2019 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the April 2019 Indenture. The trustee for the April 2019 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes, the holders of the Second December 2018 Notes, the holders of the March 2019 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The April 2019 Notes bear an interest rate of 11.75% per annum, payable in arrears on October 17 and April 17 in each year, starting from October 17, 2019.

Covenants

Subject to certain conditions and exceptions, the April 2019 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 April 2019 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the April 2019 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the April 2019 Indenture. If an event of default occurs and is continuing, the trustee under the April 2019 Indenture or the holders of at least 25% of the outstanding April 2019 Notes may declare the principal of the April 2019 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding April 2019 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the April 2019 Notes is April 17, 2022.

On or after April 17, 2021, the Company may at its option redeem the April 2019 Notes, in whole but not in part, at a redemption price equal to 104.5% of the principal amount of the April 2019 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to April 17, 2021, the Company may at its option redeem the April 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the April 2019 Notes plus the 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 April 17, 2021, the Company may redeem up to 35% of the aggregate principal amount of the April 2019 Notes at a redemption price of 111.75% of the principal amount of the April 2019 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the April 2019 Notes, we must make an offer to repurchase all April 2019 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.

July 2019 Notes

On July 18, 2019, we entered into an indenture (as amended and supplemented from time to time, the “July 2019 Indenture”) pursuant to which we issued US\$200,000,000 principal amount of the 12.25% Senior Notes due 2022. We further issued on November 18, 2019 additional notes which were consolidated and formed a single class with the notes issued on July 18, 2019. The total outstanding amount of the July 2019 Notes is US\$350,000,000. As of the date of this offer memorandum, the entire principal amount of the July 2019 Notes remained outstanding.

Guarantee

Our obligations under the July 2019 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the July 2019 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the July 2019 Notes.

Collateral

In order to secure the obligations under the July 2019 Notes, the Company and the Subsidiary Guarantors under the July 2019 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the July 2019 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the July 2019 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the July 2019 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the July 2019 Indenture. The trustee for the July 2019 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes, the holders of the Second December 2018 Notes, the holders of the March 2019 Notes, the holders of the April 2019 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The July 2019 Notes bear an interest rate of 12.25% per annum, payable in arrears on April 18 and October 18 in each year, starting from April 18, 2020.

Covenants

Subject to certain conditions and exceptions, the July 2019 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 July 2019 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the July 2019 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the July 2019 Indenture. If an event of default occurs and is continuing, the trustee under the July 2019 Indenture or the holders of at least 25% of the outstanding July 2019 Notes may declare the principal of the July 2019 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding July 2019 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the July 2019 Notes is July 18, 2022.

On or after July 18, 2021, the Company may at its option redeem the July 2019 Notes, in whole but not in part, at a redemption price equal to 104.5% of the principal amount of the July 2019 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to July 18, 2021, the Company may at its option redeem the July 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the July 2019 Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to July 18, 2021, the Company may redeem up to 35% of the aggregate principal amount of the July 2019 Notes at a redemption price of 112.25% of the principal amount of the July 2019 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the July 2019 Notes, we must make an offer to repurchase all July 2019 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.

January 2020 Notes

On January 9, 2020, we entered into an indenture (as amended and supplemented from time to time, the “January 2020 Indenture”) pursuant to which we issued US\$450,000,000 principal amount of the 10.875% Senior Notes due 2023. As of the date of this offer memorandum, the entire principal amount of the January 2020 Notes remained outstanding.

Guarantee

Our obligations under the January 2020 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the January 2020 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the January 2020 Notes.

Collateral

In order to secure the obligations under the January 2020 Notes, the Company and the Subsidiary Guarantors under the January 2020 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the January 2020 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the January 2020 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the January 2020 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the January 2020 Indenture. The trustee for the January 2020 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the January 2013 Notes, the holders of the May 2016 Notes, the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes, the holders of the Second December 2018 Notes, the holders of the March 2019 Notes, the holders of the April 2019 Notes, the holders of the July 2019 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The January 2020 Notes bear an interest rate of 10.875% per annum, payable in arrears on January 9 and July 9 in each year, starting from July 9, 2020.

Covenants

Subject to certain conditions and exceptions, the January 2020 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 2020 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the January 2020 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the January 2020 Indenture. If an event of default occurs and is continuing, the trustee under the January 2020 Indenture or the holders of at least 25% of the outstanding January 2020 Notes may declare the principal of the January 2020 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding January 2020 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the January 2020 Notes is January 9, 2023.

On or after January 9, 2022, the Company may at its option redeem the January 2020 Notes, in whole but not in part, at a redemption price equal to 105.4375% of the principal amount of the January 2020 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to January 9, 2022, the Company may at its option redeem the January 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the January 2020 Notes plus the 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 January 9, 2022, the Company may redeem up to 35% of the aggregate principal amount of the January 2020 Notes at a redemption price of 110.875% of the principal amount of the January 2020 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the January 2020 Notes, we must make an offer to repurchase all January 2020 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.

June 2020 Notes

On June 1, 2020, we entered into an indenture (as amended and supplemented from time to time, the “June 2020 Indenture”) pursuant to which we issued US\$300,000,000 principal amount of the 11.875% Senior Notes due 2023. As of the date of this offer memorandum, the entire principal amount of the June 2020 Notes remained outstanding.

Guarantee

Our obligations under the June 2020 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the June 2020 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the June 2020 Notes.

Collateral

In order to secure the obligations under the June 2020 Notes, the Company and the Subsidiary Guarantors under the June 2020 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the June 2020 Notes (the “Collateral”). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the June 2020 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the June 2020 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the June 2020 Indenture. The trustee for the June 2020 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the January 2013 Notes, the holders of the May 2016 Notes, the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes, the holders of the Second December 2018 Notes, the holders of the March 2019 Notes, the holders of the April 2019 Notes, the holders of the July 2019 Notes, the holders of the January 2020 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The June 2020 Notes bear an interest rate of 11.875% per annum, payable in arrears on June 1 and December 1 in each year, starting from December 1, 2020.

Covenants

Subject to certain conditions and exceptions, the June 2020 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 June 2020 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the June 2020 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the June 2020 Indenture. If an event of default occurs and is continuing, the trustee under the June 2020 Indenture or the holders of at least 25% of the outstanding June 2020 Notes may declare the principal of the June 2020 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding June 2020 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the June 2020 Notes is June 1, 2023.

On or after June 1, 2022, the Company may at its option redeem the June 2020 Notes, in whole but not in part, at a redemption price equal to 105.9375 % of the principal amount of the June 2020 Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to June 1, 2022, the Company may at its option redeem the June 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the June 2020 Notes plus the 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 June 1, 2022, the Company may redeem up to 35% of the aggregate principal amount of the June 2020 Notes at a redemption price of 111.875% of the principal amount of the June 2020 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the June 2020 Notes, we must make an offer to repurchase all June 2020 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.

July 2020 Notes

On July 28, 2020, we entered into an indenture (as amended and supplemented from time to time, the ‘July 2020 Indenture’) pursuant to which we issued US\$350,000,000 principal amount of the 9.25% Senior Notes due 2023. As of the date of this offer memorandum, the entire principal amount of the July 2020 Notes remained outstanding.

Guarantee

Our obligations under the July 2020 Notes are guaranteed by the Subsidiary Guarantors. Under certain circumstances and subject to certain conditions, a guarantee by a Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the July 2020 Indenture. Each of the Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the July 2020 Notes.

Collateral

In order to secure the obligations under the July 2020 Notes, the Company and the Subsidiary Guarantors under the July 2020 Indenture pledged the capital stock of all such Subsidiary Guarantors for the benefit of the holders of the July 2020 Notes (the ‘Collateral’). The Collateral may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the July 2020 Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a *pari passu* basis with the July 2020 Notes and the related subsidiary guarantees, and other *pari passu* secured indebtedness permitted under the July 2020 Indenture. The trustee for the July 2020 Notes acceded to the Intercreditor Agreement, which had provided that the Collateral is to be shared on a *pari passu* basis among the holders of the January 2013 Notes, the holders of the May 2016 Notes, the holders of the October 2016 Notes, the holders of the July 2017 Notes, the holders of the March 2018 Notes, the holders of the First December 2018 Notes, the holders of the Second December 2018 Notes, the holders of the March 2019 Notes, the holders of the April 2019 Notes, the holders of the July 2019 Notes, the holders of the January 2020 Notes, the holders of the June 2020 Notes, the holders of the July 2020 Notes and the holders of other permitted *pari passu* indebtedness.

Interest

The July 2020 Notes bear an interest rate of 9.25% per annum, payable in arrears on January 28 and July 28 in each year, starting from January 28, 2021.

Covenants

Subject to certain conditions and exceptions, the July 2020 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the certain 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 July 2020 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the July 2020 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the July 2020 Indenture. If an event of default occurs and is continuing, the trustee under the July 2020 Indenture or the holders of at least 25% of the outstanding July 2020 Notes may declare the principal of the July 2020 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable.

Change of Control

Upon the occurrence of a certain event of change of control, we are obligated to make an offer to repurchase all outstanding July 2020 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity

The maturity date of the July 2020 Notes is July 28, 2023.

On or after July 28, 2022, the Company may at its option redeem the July 2020 Notes, in whole but not in part, at a redemption price equal to 104.625% of the principal amount of the July 2020 Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to July 28, 2022, the Company may at its option redeem the July 2020 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the July 2020 Notes plus the 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 July 28, 2022, the Company may redeem up to 35% of the aggregate principal amount of the July 2020 Notes at a redemption price of 109.25% of the principal amount of the July 2020 Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the net cash proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

Upon the occurrence of a Change of Control Triggering Event as defined in the terms and conditions of the July 2020 Notes, we must make an offer to repurchase all July 2020 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.

Contingent Liabilities

In line with industry practice, we provide guarantees to mortgagee banks in respect of mortgage loans taken out by purchasers of our properties. Such guarantee obligations typically terminate upon the delivery of the relevant property ownership certificates on the underlying property to the bank. As of December 31, 2019 the aggregate outstanding amount guaranteed was RMB12,166.6 million (US\$1,747.6 million).

Offshore Facility Agreements

2019 CITIC (US) Loan

In July 2019, Fantasia 373 Hotel (US), LLC, our wholly-owned subsidiary that is not a 2012 Subsidiary Guarantor, a January 2013 Subsidiary Guarantor, a 2015 Subsidiary Guarantor, a May 2016 Subsidiary Guarantor or an October 2016 Subsidiary Guarantor and will not guarantee the Notes, as borrower, entered into a US\$22.0 million loan agreement with China CITIC Bank International Limited, New York Branch, as lender. In connection with the loan agreement, Fantasia Investment Holdings Co., Limited, our wholly owned subsidiary that is a 2012 Subsidiary Guarantor, a January 2013 Subsidiary Guarantor, a 2015 Subsidiary Guarantor, a May 2016 Subsidiary Guarantor or an October 2016 Subsidiary Guarantor and will also guarantee the Notes, provided a guarantee in favor of the lenders for the entire amount of the loan agreement.

Onshore Bonds

2015 Onshore Bonds

On September 18, 2015, Fantasia Group China issued public domestic corporate bonds in aggregate amount of RMB2 billion with an interest rate of 6.95% to reduce our capital costs and foreign exchange risk, and lay a solid foundation for the expansion of our business scale and sustainable development.

Under the 2015 Onshore Bonds, the Company shall not pay dividends to its shareholders if the Company is or will be unable to pay the principal amount or interest of the 2015 Onshore Bonds when due. As of the date of this offering memorandum, the entire principal amount of the 2015 Onshore Bonds remained outstanding.

2016 Onshore Bonds

In 2016, we issued seven tranches of domestic corporate bonds through our subsidiaries. On January 4, 2016, Fantasia Group China issued public domestic corporate bonds of RMB1.1 billion with an interest rate of 7.29% per annum which will mature on December 31, 2020. On January 29, 2016, Colour Life, a non-wholly owned subsidiary of the Company which is an Unrestricted Subsidiary under our 2012 Notes, January 2013 Notes, 2015 Notes, the May 2016 Notes, the October 2016 Notes and the Notes, issued non-public domestic corporate bonds of RMB100 million with an interest rate of 6.7% per annum which matured on January 28, 2019. On May 19, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB500 million with an interest rate of 7.5% per annum which matured on May 19, 2019. On July 15, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB331 million with an interest rate of 6.80% per annum which matured on July 15, 2019. On August 17, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB1.3 billion with an

interest rate of 7.20% per annum which matured on August 17, 2019. On August 23, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB300 million with an interest rate of 7.30% per annum which matured on August 23, 2019. On September 7, 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB569 million with an interest rate of 6.60% per annum which matured on September 7, 2019.

As of December 31, 2019, RMB1,091.2 million (US\$156.7 million) of the seven tranches of the 2016 Onshore Bonds remained outstanding.

2018 Corporate Bonds

Fantasia China, a wholly-owned subsidiary of us established in the PRC, has received the approval letter from China Securities Regulatory Commission (“CSRC”) on November 15, 2018 to undertake public offerings of corporate bonds with the face value of up to RMB2,900,000,000 to qualified investors. The corporate bonds will be issued in tranches. The issuance of the first tranche shall be completed within 12 months from the date of the approval and the issue of other tranches shall be completed within 24 months from the date of the approval. The approval is valid for 24 months commencing from the date of issue of the approval.

On December 17, 2018, we issued the first tranche of the 2018 Corporate Bonds in an aggregate principal amount of RMB1,000,000,000 at a coupon rate of 7.50% for a term of three years, with the option to adjust the coupon rate. The investors have the option to sell back the 2018 Corporate Bonds at the end of the second year.

2019 Onshore Bonds

On July 3, 2019, Fantasia Group (China) Co., Limited (花樣年集團(中國)有限公司)(“Fantasia Group China”), our wholly owned subsidiary, issued public domestic corporate bonds in aggregate amount of RMB800 million at a coupon rate of 8.2% per annum for a term of three years, with the option to adjust the coupon rate and a sell-back option for the investors at the end of the second year.

On November 27, 2019, the Company issued the second tranche of the 2019 Onshore Bonds in an aggregate amount of RMB730 million and a coupon rate of 7.8% per annum for a term of three years with the option to adjust the coupon rate and a sell-back option for the investors at the end of the second year.

Assets Backed Securities

In August 2016, Shenzhen Colour Life Services Group Co., Limited (深圳市彩生活服務集團有限公司)(“Shenzhen Colour Life”), our non-wholly owned subsidiary and an unrestricted subsidiary under our senior notes, issued assets backed securities (“ABS”) under securitization arrangements collateralized by the future cash inflows relating to certain trade receivables for the payments of property management fee. The ABS were issued at a discount of 5% with aggregate nominal value of RMB300,000,000 and with carry interests ranging from 4.5% to 6.1% per annum. The principal and interest are payable quarterly and with maturity from November 2016 to August 2021. The effective interest rates range from 6.9% to 8.3% per annum. For certain portion of ABS amounting to RMB135,000,000, at the end of the third year, Shenzhen Colour Life is entitled to adjust the interest rate and the holders of ABS may at their options to sell back the ABS to our Group in whole or in part at face value of their principal amount.

PRINCIPAL SHAREHOLDERS

As of December 31, 2019, so far as the directors are aware, the following persons or institutions have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, Cap 571 of the Laws of Hong Kong, or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

<u>Name of shareholders</u>	<u>Nature of interest</u>	<u>Number of issued ordinary shares of the Company</u>	<u>Interest in underlying Shares of the Company</u>	<u>Approximate percentage of interest in the Company as of December 31, 2019</u>
Fantasy Pearl	Beneficial owner	3,314,090,500 (L) ⁽¹⁾		57.46%
Ice Apex	Interest of controlled corporation	3,314,090,500 (L) ⁽¹⁾		57.46%
T. C. L. Industries Holdings (H.K.) Limited	Beneficial owner	1,156,995,574 (L) ⁽²⁾		20.06%
TCL Corporation	Interest of controlled corporation ⁽²⁾	1,156,995,574 (L) ⁽²⁾		20.06%
CITIC Securities Company Limited	Interest of controlled corporation	286,572,300 (L) ⁽³⁾		4.97%
	Interest of controlled corporation	465,679,500 (S) ⁽³⁾		8.08%

Notes:

- (1) *Fantasy Pearl is owned as to 80% by Ice Apex and 20% by Graceful Star. Ice Apex is deemed to be interested in the shares of the Company held by Fantasy Pearl for the purpose of Part XV of the SFO.*
- (2) *Shenzhen China Star Optoelectronics Technology Co., Ltd. is wholly owned by TCL Corporation. TCL Corporation is deemed to be interested in the shares of the Company held by Shenzhen China Star Optoelectronics Technology Co., Ltd. for the purpose of Part XV of the SFO.*
- (3) *Total of 286,572,300 shares in long position and 465,679,500 shares in short position held by CSI Capital Management Limited directly. CSI Capital Management Limited is wholly owned by CITIC CLSA Global Markets Holdings Limited. CITIC CLSA Global Markets Holdings Limited is wholly owned by CLSA B.V. CLSA B.V. is wholly owned by CITIC Securities International Company Limited. CITIC Securities International Company Limited is wholly owned by CITIC Securities Company Limited. CITIC Securities Company Limited is deemed to be interested in the shares held by CSI Capital Management Limited for the purpose of Part XV of the SFO.*

Except as disclosed above, as of the date of the offering memorandum, no other shareholder, other than directors or chief executives, of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

RELATED PARTY TRANSACTIONS

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

The table below sets forth certain material transactions between us and our related parties during the three years ended December 31, 2017, 2018 and 2019:

Related parties	Relationship	Transactions	For the year ended December 31,			
			2017 (RMB in thousands)	2018 (RMB in thousands)	2019 (RMB in thousands)	(US\$ in thousands) (unaudited)
Shenzhen Cube 深圳立方	An associate of Shenzhen Tiankuo, a related company controlled by Ms. Zeng Jie, Baby, the controlling shareholder and director of the Company	Rental income	964	964	-	-
Shenzhen Cube Architecture Designing Consultants Company Limited 深圳立方建築設計顧問有限公司	An associate of Shenzhen Tiankuo Investment Co., Ltd., a related company controlled by Ms. Zeng Jie, Baby, the controlling shareholder and director of the Company	Design services fee paid	1,814	61	-	-
Wanxiangmei 萬象美	Subsidiary of a joint venture of the Company	Consultancy service fee income	92,933	-	-	-
Shenzhen Wan Xiang 深圳萬象	Joint venture of the Company	Management Fee income	7,920	-	-	-
Shenzhen Color Pay 深圳市彩付寶網絡技術有限公司	A company controlled by Mr. Pan Jun, a director and the chief executive officer of the company	Commission income	19,408	40,272	72,331	10,390

During the years ended December 31, 2017, 2018 and 2019, we sold certain properties to its key management personnel at a cash consideration of approximately RMB46.0 million, RMB8.0 million and RMB22.5 million (US\$3.2 million), respectively.

As of December 31, 2018, certain of our directors provided joint guarantees to the banks and trust companies for our bank and other borrowings amounting to RMB846.0 million in aggregate. During the year ended December 31, 2019, the guarantees were released upon the repayment of the aforesaid bank and other borrowings.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Fantasia Holdings Group Co., Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined below) is referred to as the “JV Subsidiary Guarantor.”

The notes issued pursuant to this offering memorandum (the “Additional Notes”) are a further issuance of and will be fully consolidated and form a single series with, and will rank *pari passu* with, the US\$300,000,000 7.95% Senior Notes due 2022 issued on July 5, 2017 (the “Original Notes”). Unless otherwise specified, references in this section to “Notes” mean the Additional Notes and the Original Notes. The terms and conditions for the Additional Notes are the same as those for the Original Notes in all respects except for the issue date and the issue price, and the Additional Notes and the Original Notes will vote together as one series on all matters with respect to the Notes. Upon the issue of the Additional Notes, the aggregate principal amount of outstanding Notes will be US\$500,000,000.

The Additional Notes are to be issued under an indenture (the “Indenture”), dated as of July 5, 2017, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Intercreditor Agreement (as defined below), the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Intercreditor Agreement, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.

Copies of the Indenture are available at the corporate trust office of the Trustee at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “– The Subsidiary Guarantees and 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 secured obligations (if any) of the Company, 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) shared on a *pari passu* basis pursuant to the Intercreditor Agreement (as defined below) 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 with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on July 5, 2022, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 7.95% 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 semiannually in arrears on January 5 and July 5 of each year (each an “Interest Payment Date”), which commenced on January 5, 2017. Interest on the Notes will be paid to Holders of record at the close of business on December 21 and June 20 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. So long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying and Transfer Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no 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 in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the corporate trust administration office of the Paying and Transfer Agent), and the Notes may be presented for registration of transfer or exchange at such office or agency; provided that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Note Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and JV Subsidiary Guarantees

As of the date of this offering memorandum, the initial Subsidiary Guarantors are Fantastic Victory Limited, Wisdom Regal Limited, Fantasia Financial Community Group Co., Ltd. (花樣年社區金融集團有限公司), Fantasia Investment Holdings Company Limited, Joytime Investment Limited, Fantasia Financial Community Group (Hong Kong) Co., Limited (花樣年社區金融集團(香港)有限公司) and Hong Kong Huawanli Trading Co., Ltd. Other than the above listed Subsidiary Guarantors, none of the Company's other Restricted Subsidiaries organized outside of the PRC (collectively the "Initial Other Non-Guarantor Subsidiaries"), the Unrestricted Subsidiaries and the PRC Non-Guarantor Subsidiaries would be a Subsidiary Guarantor on the issue date of the Additional Notes.

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 at any time in the future.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an Independent Third Party such that it becomes a Subsidiary and designate such Subsidiary as a Restricted Subsidiary, the Company may, concurrently with 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 made from, an Independent Third Party at a consideration that is not less than (in the case of a sale or issuance) or no more than (in the case of a purchase) the Fair Market Value of such Capital Stock;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, if applicable, the Collateral Agent (as defined below):
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Collateral Agent for itself and for the benefit of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of December 31, 2019, the Company and its consolidated subsidiaries had total debt (other than the Existing Pari Passu Secured Indebtedness) and the onshore bonds of approximately RMB14,090.0 million (US\$2,024 million), of which approximately RMB12,824.6 million (US\$1,889.7 million) was secured.

As of December 31, 2019, the Non-Guarantor Subsidiaries had total debt of approximately RMB19,781.4 million (US\$2,841.4 million) and the Non-Guarantor Subsidiaries had capital commitments of approximately RMB13,791.6 million (US\$1,981.0 million) and contingent liabilities of approximately RMB12,166.6 million (US\$1,747.6 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to 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; and

- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, Exempted Subsidiaries or Listed Subsidiaries), as soon as practicable after it becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary, 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, the Company may elect to have any future Restricted Subsidiary (and its Restricted Subsidiaries) organized outside the PRC not provide a Subsidiary Guarantee or JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary (the “New Non-Guarantor Subsidiaries,” 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 that are not Subsidiary Guarantors or JV Subsidiary Guarantors (other than Exempted Subsidiaries or Listed Subsidiaries) 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 Guarantee is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries.”

Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC and the Other Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

In addition, subject to the limitations described in “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary 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 (as defined below) 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 JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; provided that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such 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 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 and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon satisfaction and discharge as described under "– Satisfaction and Discharge";
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, disposition or merger of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions "– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries", "– Certain Covenants – Limitation on Asset Sales" and "– Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New 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, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become New Non-Guarantor Subsidiaries (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct 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 shares it owns in each such New Non-Guarantor Subsidiary (in each case, without any requirement to seek the consent or approval of the Holders of the Notes), provided that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) (other than Exempted Subsidiaries or Listed Subsidiaries) do not account for more than 20% of the Total Assets of the Company. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

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 such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the Fair Market Value of such Capital Stock;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, if applicable, the Collateral Agent:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the

Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;

- (ii) a duly executed Security Document that pledges in favor of the Collateral Agent for itself and for the benefit of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
- (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
- (iv) 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 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 this offering memorandum, all of the Company's Subsidiaries are "Restricted Subsidiaries" except those listed under "- Definitions - Unrestricted Subsidiary." 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 the initial Subsidiary Guarantors (the "Collateral") (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 Fantastic Victory Limited, Wisdom Regal Limited and Fantasia Financial Community Group Co., Ltd. (formerly known as "Fantasia Financial Holdings Group Co., Ltd.").

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is

established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Collateral Agent for itself and for the benefit of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, (i) the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, as soon as practicable after such Person becomes a Subsidiary Guarantor or JV Subsidiary Guarantor, and (ii) any additional shares of Capital Stock of a Subsidiary Guarantor or JV Subsidiary Guarantor acquired or otherwise received by the Company or such Subsidiary Guarantor, as soon as practicable, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above. The Collateral will be shared on a *pari passu* basis pursuant to the Intercreditor Agreement (as defined below) by the holders of the Notes, the holders of the Existing *Pari Passu* Secured Indebtedness and the holders of the 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.

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 value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantee (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “– Release of Security” and “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral – The value of the Collateral is unlikely 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 each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any Pari Passu Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such Pari Passu Guarantee, “Permitted Pari Passu Secured Indebtedness”); provided that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “– Limitation on Indebtedness and Preferred Stock,” (2) the holders (or their representative) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Guarantee is substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, stating that either (x) all necessary actions have been taken with respect to the recording, registering and filing of the Security Documents or (y) no such action is necessary to make such Lien effective. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendment 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 issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

The Company, the Subsidiary Guarantor Pledgors, the Collateral Agent, the trustee for the 2012 Notes and the trustee for the 2010 Notes entered into an intercreditor agreement dated September 27, 2012, to which the trustee for the January 2013 Notes acceded on January 22, 2013, the trustee for the May 2013 Notes acceded on May 27, 2013, the trustee for the 2014 Notes acceded on January 23, 2014, the trustee for the 2015 Notes acceded on June 1, 2015, the trustee for the May 2016 Notes acceded on May 4, 2016, the trustee for the October 2016 Notes acceded on October 4, 2016, the trustee for the June 2017 Notes acceded on June 13, 2017, the trustee for the July 2017 Notes acceded on July 5, 2017, the trustee for the February 2018 Notes acceded on February 14, 2018, the trustee for the March 2018 Notes acceded on March 8, 2018, the trustee for the June 2018 Notes acceded on June 5, 2018, the trustee for the July 2018 Notes acceded on July 16, 2018, the trustee for the First December 2018 Notes acceded on December 17, 2018, the trustee for the Second December 2018 Notes acceded on December 18, 2018, the trustee for the March 2019 Notes acceded on March 11, 2019, the trustee for the April

2019 Notes acceded on April 17, 2019, the trustee for the July 2019 Notes acceded on July 18, 2019, the trustee for the January 2020 Notes acceded on January 9, 2020, the trustee for the June 2020 Notes acceded on June 1, 2020, the trustee for the July 2020 Notes acceded on July 28, 2020 and the trustee for other senior notes issued by the Company prior to the Original Issue Date, the holders of which share the Collateral on a *pari passu* basis with the holders of the Notes and the holders of the other Existing Pari Passu Secured Indebtedness, acceded on the issue date of such senior notes. Citicorp International Limited, as trustee with respect to the 2010 Notes, was released as a secured party to the Intercreditor Agreement after the 2010 Notes were repaid in full at maturity on May 12, 2015. Citicorp International Limited, as trustee to the May 2013 Notes, was released as a secured party to the Intercreditor Agreement after the May 2013 Notes matured and were redeemed in full on May 27, 2016. Citicorp International Limited, as trustee with respect to the 2014 Notes, was released as a secured party to the Intercreditor Agreement after the 2014 Notes were redeemed in full on January 23, 2017. Citicorp International Limited, as trustee with respect to the 2012 Notes, was released as a secured party to the Intercreditor Agreement after the 2012 Notes matured and were repaid in full on September 27, 2017. Citicorp International Limited, as trustee with respect to the 2015 Notes, was released as a secured party to the Intercreditor Agreement after the 2015 Notes matured and were repaid in full on June 1, 2018. Citicorp International Limited, as trustee with respect to the June 2017 Notes, was released as a secured party to the Intercreditor Agreement after the June 2017 Notes matured and were repaid in full on June 12, 2018. Citicorp International Limited, as trustee with respect to the June 2018 Notes, was released as a secured party to the Intercreditor Agreement after the June 2018 Notes were fully tendered and exchanged into the First December 2018 Notes on December 17, 2018. Citi International Limited, as trustee with respect to the February 2018 Notes, was released as a secured party to the Intercreditor Agreement after the February 2018 Notes matured and were repaid in full on February 13, 2019. Citi International Limited, as trustee with respect to the July 2018 Notes, was released as a secured party to the Intercreditor Agreement after the July 2018 Notes matured and were repaid in full on July 15, 2019. Citi International Limited as trustee with respect to the January 2013 Notes, was released as a secured party to the Intercreditor Agreement after the January 2013 Notes was redeemed in full on November 27, 2019. The trustee for the Notes has acceded to the Intercreditor Agreement on the Original Issue Date, which provides that the security interests held in the Collateral will be shared on a *pari passu* basis 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.

In connection with the Incurrence of any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their representatives or agents) will accede to the Intercreditor Agreement to include the holders (or their representatives or agents) of such Permitted Pari Passu Secured Indebtedness as parties to the Intercreditor Agreement.

By accepting the Notes, each Holder shall be deemed to have acknowledged and agreed with the terms of, and, as applicable, the execution of the Intercreditor Agreement, any supplements, amendments or modifications thereto, and any future intercreditor agreement that may be required under the terms of the Indenture.

Enforcement of Security

The Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors have been granted to the Collateral Agent for itself and for the benefit of the Trustee, the respective trustee for each series of the Existing Pari Passu Secured Indebtedness. The Collateral Agent, subject to the Intercreditor Agreement, will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Trustee has agreed to

act as secured party on behalf of the holders under the applicable Security Documents, to follow, or cause to be followed, the instructions provided to it under the Indenture, the Intercreditor Agreement and the Security Documents and to carry out certain other duties.

The Indenture, the Intercreditor Agreement and/or the Security Documents principally provide that, at any time while the Notes are outstanding, 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 provided that the Collateral Agent will enforce the Collateral in accordance with a written instruction by any Secured Parties Representative to do so if it does not identify a conflict between the Secured Parties' interests or a conflict between instructions (in the event at least two Secured Parties issue instructions), and in the case of conflicting instructions delivered by two or more Secured Parties Representatives, the Collateral Agent will only enforce the Collateral upon receiving written instructions from the holders of a majority of the outstanding principal amount of the Indebtedness secured by the Collateral. See "Risk Factors – Risks Relating to the Subsidiary Guarantees and the Collateral – 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 expenses (including reasonable expenses of its counsel) incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses 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, to the Trustee, the trustee for each series of the Existing Pari Passu Secured Indebtedness and other Secured Parties Representatives, to the extent necessary to reimburse the foregoing persons ratably 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) incurred under the Security Documents and the agreement governing the Notes, the Existing Pari Passu Secured Indebtedness or 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 incurred in enforcing all available remedies under the Notes, the Existing Pari Passu Secured Indebtedness and the agreements governing the Notes, the Existing Pari Passu Secured Indebtedness or any Permitted Pari Passu Secured Indebtedness, the Intercreditor Agreement, the Security Documents and preserving the Collateral and all indemnification payments for which the foregoing persons are entitled to under the Notes, the Existing Pari Passu Secured Indebtedness and the agreement governing the Notes, the Existing Pari Passu Secured Indebtedness or any Permitted Pari Passu Secured Indebtedness, the Intercreditor Agreement and the Security Documents;

third, ratably to each of the trustee for each series of the Existing Pari Passu Secured Indebtedness for the benefit of the holders of such Existing Pari Passu Secured Indebtedness and the Trustee for the benefit of the holders of the Notes and, to the extent applicable, to other Secured Parties for the benefit of the holders of any Permitted Pari Passu Secured Indebtedness (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 each thereof in accordance with the terms of the Notes, the Existing Pari Passu Secured Indebtedness or the agreement governing the Notes, the Existing Pari Passu Secured Indebtedness or any Permitted Pari Passu Secured Indebtedness; and

fourth, any surplus remaining after such payments will be paid to the Company, the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification 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 Collateral Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, 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 Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Collateral Agent.

This section, "– Enforcement of Security," shall be subject to any amendments to the Security Documents 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 satisfaction and discharge as provided below under the caption "– Satisfaction and Discharge;"
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "– Limitation on Asset Sales" or in accordance with the provision under the caption "– Consolidation, Merger and Sale of Assets;"
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;

- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee, with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture;
- with respect to a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary; 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 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 JV Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; provided that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

Optional Redemption

At any time and from time to time on or after July 5, 2020, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on July 5 of the years indicated below.

<u>Period</u>	<u>Redemption Price</u>
2020	103.9750%
2021 and thereafter	101.9875%

At any time prior to July 5, 2020, 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.

At any time and from time to time prior to July 5, 2020, 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 107.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange or if there is no applicable requirement of the principal stock exchange on which the Notes are listed, in compliance with the requirements of the clearing systems if the Notes are held through any clearing systems, on a *pro rata* basis, by lot or by such method as the Trustee deems fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's and the Subsidiary 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.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “– Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Jurisdiction”), or the jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, 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, the Subsidiary Guarantees or the JV Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note, Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction or the jurisdiction through which payments are made, other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

- (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, 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 its beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction or the jurisdiction through which payments are made, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction or the jurisdiction through which payments are made, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or governmental charge;
 - (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction pursuant to the implementation of FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or an intergovernmental agreement with respect thereto, or any other agreement pursuant to the implementation of FATCA; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction or the jurisdiction through which payments are made, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note 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 (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 is proposed and becomes effective, or in the case of an official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person, a Subsidiary Guarantor or 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 giving of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, provided that the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0. Notwithstanding the foregoing, the Company will not permit any Non-Guarantor Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any Pari Passu Guarantees;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); provided that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; provided that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must 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 the Company is not the obligee, such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness Incurred and Preferred Stock issued under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (p), (r), (s), (t) or (u) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); provided that

- (v) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause
- (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor;
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations to reduce or manage the exposure of the Company or any of its Restricted Subsidiaries to fluctuations in interest rates, currencies or the price of commodities;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; provided that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount of all such Indebtedness permitted by this clause (h) and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h)), plus (2) the aggregate principal amount of all Indebtedness and Preferred Stock permitted by clauses (p) and (r) below and then outstanding (together with refinancings thereof, but excluding any Contractor

Guarantee or Guarantee to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such principal amount), plus (3) the aggregate amount of all Indebtedness permitted by clauses (s), (t) and (u) below and then outstanding (together with refinancings thereof) does not exceed an amount equal to 25.0% of Total Assets;

- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self- insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; provided that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business provided, however, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (n) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; provided that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$30.0 million (or the Dollar Equivalent thereof);

- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement;
- (p) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by an Insurance Company Investor in a Restricted Subsidiary provided that on the date of such Incurrence of all such Indebtedness or issuance of all such Preferred Stock and after giving effect thereto, the sum of (1) the aggregate principal amount of all Indebtedness permitted by clause (h) above and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h)), plus (2) the aggregate principal amount of all Indebtedness and Preferred Stock permitted by this clause (p) and clause (r) below and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee or Guarantee to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such principal amount), plus (3) the aggregate amount of all Indebtedness permitted by clauses (s), (t) and (u) below and then outstanding (together with refinancings thereof) does not exceed an amount equal to 25.0% of Total Assets;
- (q) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$30.0 million (or the Dollar Equivalent thereof);
- (r) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, provided that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount of all Indebtedness permitted by clause (h) above and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h)), plus (2) the aggregate principal amount of all Indebtedness and Preferred Stock permitted by clause (p) above and this clause (r) and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee or Guarantee to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such principal amount), plus (3) the aggregate amount of all Indebtedness permitted by clauses (s), (t) and (u) below and then outstanding (together with refinancings thereof) does not exceed an amount equal to 25.0% of Total Assets;
- (s) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than the Company or a Restricted Subsidiary) by the Company or such Restricted Subsidiary, provided that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount of all Indebtedness permitted by clause (h) above and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (h)), plus (2) the aggregate principal amount of all Indebtedness and Preferred Stock permitted by clause (p) and clause (r) above and clauses (t) and (u) below and then outstanding (together with refinancings thereof, but excluding any Contractor Guarantee or Guarantee to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such principal amount), plus (3) the aggregate amount of all Indebtedness permitted by this clause (s) and then outstanding (together with refinancings thereof) does not exceed an amount equal to 25.0% of Total Assets;

- (t) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Person becomes a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount of all Indebtedness permitted by clause (h) above and then outstanding (together with refinancing thereof but excluding any Contractor Guarantee Incurred under clause (h)), plus (2) the aggregate principal amount of all Indebtedness and Preferred Stock permitted by clauses (p), (r) and (s) above and clause (u) below and then outstanding (together with refinancing thereof, but excluding any Contractor Guarantee or Guarantee to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such principal amount), plus (3) the aggregate amount of all Indebtedness permitted by this clause (t) and then outstanding (together with refinancing thereof) does not exceed an amount equal to 25.0% of Total Assets;
 - (u) Indebtedness Incurred by the Company or any Restricted Subsidiary which is secured by Investment Properties and Guarantees thereof by the Company or any Restricted Subsidiary, provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount of all Indebtedness permitted by clause (h) above and then outstanding (together with refinancing thereof but excluding any Contractor Guarantee Incurred under clause (h)), plus (2) the aggregate principal amount of all Indebtedness and Preferred Stock permitted by clauses (p), (r), (s) and (t) above and then outstanding (together with refinancing thereof, but excluding any Contractor Guarantee or Guarantee to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such principal amount), plus (3) the aggregate amount of all Indebtedness permitted by this clause (u) and then outstanding (together with refinancing thereof) does not exceed an amount equal to 25.0% of Total Assets; and
 - (v) Indebtedness constituting a Subordinated Shareholder Loan.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph, 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 or Preferred Stock that may be issued pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital

Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary other than (i) the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement or (ii) the purchase of Capital Stock of a Restricted Subsidiary held by any Insurance 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 (1) Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date and (2) payments made by the Company and its Restricted Subsidiaries after the Measurement Date but on or before the Original Issue Date that would have been Restricted Payments had they been made after the Original Issue Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the 2010 Notes were first issued and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants

or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person; plus
- (v) US\$5.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or 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 payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary;
- (6) dividends paid to any Insurance Company Investor in respect of any Indebtedness outstanding on the Measurement Date or permitted to be Incurred under paragraph (2)(p) of the “Limitation on Indebtedness and Preferred Stock” covenant or, if Incurred after the Measurement Date but on or before the Original Issue Date, the corresponding provision of the Existing Pari Passu Secured Indebtedness;
- (7) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this “– Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (8) the purchase by the Company or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Company from an Independent Third Party pursuant to an agreement entered into between/among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, provided that (x) such purchase occurs within 12 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire and (y) the Company delivers to the Trustee a Board Resolution set forth in an Officers’ Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock; 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 3% 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\$5.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination); or

- (10) the payment of any dividend or distribution payable or paid solely in Capital Stock (other than Disqualified Stock or Preferred Stock) of any Unrestricted Subsidiary or in options, warrants or other rights to acquire shares of such Capital Stock;

provided that, in the case of clause (2), (3), (4) or (10) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “– Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payment set forth in clauses (5) through (10) 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.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary;

provided that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
- (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness or Pari Passu Guarantee, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
 - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “– Limitation on Indebtedness and Preferred Stock” and “– Limitation on Asset Sales” covenants;
 - (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(h), 2(p), 2(r), 2(s), 2(t) or 2(u) or permitted under clause (2)(n) of the “– Limitation on

Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and, with respect to Indebtedness of the type described in clause (2)(h), 2(p), 2(r), 2(s), 2(t) or 2(u) any extensions, refinancings, renewals or replacements of any of the foregoing agreements; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Subsidiary or its subsidiaries or the property or assets of such Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (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) for the sale of all of the shares of the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the “– Limitation on Asset Sales” covenant;
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary, provided that any remaining Investment in such Person would have

been permitted to be made under the “– Limitation on Restricted Payments” covenant if made on the date of such issuance or sale and further provided that the Company complies with the “– Limitation on Asset Sales” covenant, provided further that, paragraph (b) of clause (16) of the definition of “Permitted Investment” shall not apply if such Restricted Payment would otherwise have been permitted under clause (16) of such definition; or

- (5) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); provided that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “– Limitation on Asset Sales” covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1)(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2)(c), (d), (m)(ii) (other than a Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary that is not a Subsidiary of such PRC Subsidiary) or (r) (in the case of clause (2)(r), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of cash deposits or bank accounts to secure (or the use of any Guarantee, letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness), under the caption “– Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other reasonable and customary compensation to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption “– Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option or other incentive scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;

- (6) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Colour Life Group entered into in connection with the Colour Life IPO, including but not limited to transactions entered into for purposes of any reorganization in connection with the Colour Life IPO and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the Colour Life IPO;
- (7) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Colour Life Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the Colour Life IPO, or any amendment or modification or extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the Colour Life IPO and in compliance with the rules of The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are then listed for trading;
- (8) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in connection with the proposed Restructuring, including but not limited to transactions entered into for purposes of any reorganization in connection with the proposed Restructuring and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the proposed Restructuring;
- (9) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the proposed Restructuring, or any amendment or modification or extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the proposed Restructuring and in compliance with the rules of The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are then listed for trading; and
- (10) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (9) of the second paragraph of the covenant entitled “– Limitation on Restricted Payments.”

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “– Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among the Company and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries 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, and (iv) at any time when the Company's Common Stock is listed on the Hong Kong Exchanges and Clearing Limited, any transaction between any of the Company or its Restricted Subsidiaries and TCL Corporation or its Subsidiaries; provided that in the case of clause (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or any Restricted

Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Subsidiary Guarantor, Minority Joint Venture or Unrestricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such other shareholder or other partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; provided that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “– Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “– Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or any Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “– Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; provided that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$15.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of

such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:

- (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Businesses ("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 exceeds US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to 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. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; provided, however, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption “– Limitation on Restricted Payments.”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans, as contemplated under the caption “Use of Proceeds” in this offering memorandum (or, in the case of any Additional Notes, the offering document relating to the sale of such Additional Notes) and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; provided that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “– Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “– Limitation on Liens;” (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “– Limitation on Restricted Payments” (other than any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group upon the designation of the Restructuring Group as Unrestricted Subsidiaries in connection with the proposed Restructuring, provided that (i) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the Restructuring Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the proposed Restructuring, and (ii) immediately prior to the designation of the Restructuring Group as Unrestricted Subsidiaries, the Consolidated Assets of the Restructuring Group shall be no more than 5% of the Total Assets of the Company).

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; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “– Security”.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from 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 of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (2) “– Certain Covenants – Limitation on Restricted Payments”;
- (3) “– Certain Covenants – Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;

- (4) “– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “– Certain Covenants – Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “– Certain Covenants – Limitation on the Company’s Business Activities”;
- (7) “– Certain Covenants – Limitation on Sale and Leaseback Transactions”;
- (8) “– Certain Covenants – Limitation on Asset Sales”; and
- (9) clauses (3) and (4) of the first and second paragraphs of “– Consolidation, Merger and Sale of Assets”.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “– Certain Covenants – Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited 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) 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) 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 quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarter periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, provided that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, 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 Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "– Security;"
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$20.0 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\$20.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Significant Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Restricted Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture, the Intercreditor Agreement and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in 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. 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, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, instruct the Collateral Agent to foreclose on the Collateral in accordance with the terms of the Intercreditor Agreement and the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. 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 the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify on or before a date not more than 120 days after the end of each fiscal year that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See “– Provision of Financial Statements and Reports.”

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “– Limitation on Indebtedness and Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “– Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); 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.”

For the avoidance of doubt, for purposes of this covenant “– Consolidation, Merger and Sale of Assets”, a sale of shares of Capital Stock of a PRC Non-Guarantor Subsidiary which holds all or substantially all properties and assets of the Company or the relevant Subsidiary Guarantor or JV Subsidiary Guarantor to Independent Third Parties in an initial public offering and listing on a stock exchange of the shares of Capital Stock of such PRC Non-Guarantor Subsidiary where such PRC Non-Guarantor Subsidiary (i) remains a Restricted Subsidiary immediately after such sale and (ii) the Company or the relevant Subsidiary Guarantor or JV Subsidiary Guarantor, immediately after such sale, owns at least 30.0% of the Voting Stock of such PRC Non-Guarantor Subsidiary shall not constitute a sale of substantially all properties and assets of the Company or the relevant Subsidiary Guarantor or JV Subsidiary Guarantor.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either:
 - (a) all of the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust by the Company and thereafter repaid to the Company) have been delivered to the Paying Agent for cancellation; or
 - (b) all Notes not theretofore delivered to the Paying Agent for cancellation have become due and payable pursuant to an optional redemption notice or otherwise or will become due and payable within one year, and the Company has irrevocably deposited or caused to be deposited with the Paying Agent funds, in cash in U.S. dollars, non-callable U.S. Government Obligations or a combination thereof, in an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Paying Agent for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable written instructions from the Company directing the Trustee or the Paying Agent to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (2) the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor has paid all other sums payable under the Indenture;
- (3) no Default or Event of Default will have occurred and be continuing on the date of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any instruments to which the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is a party or by which the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is bound (other than the Indenture, the Notes or any Security Document).

In addition, the Company must deliver to the Trustee an Officers' Certificate stating that all conditions precedent to satisfaction and discharge have been satisfied.

Amendments and Waiver

Amendments without Consent of Holders

The Indenture, the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (2) provide for the assumption of the Company's or any Subsidiary Guarantor or JV Subsidiary Guarantor's obligations pursuant to or otherwise comply with the provisions described under "-- Consolidation, Merger and Sale of Assets;"
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;

- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor and the corresponding Collateral as provided or permitted by the terms of the Indenture;
- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear, Clearstream or any applicable clearing system;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to 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, the JV Subsidiary Guarantees (if any) or the Intercreditor Agreement to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) or the Intercreditor Agreement.

Amendments with Consent of Holders

The Indenture, the Intercreditor Agreement or any Security Document may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes and the Agents may amend or waive future compliance by the Company with any provision thereof; provided, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) [reserved];
- (14) change the redemption date or the redemption price of the Notes from that stated under the captions “– Optional Redemption” or “– Redemption for Taxation Reasons;”
- (15) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (16) 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 Agents

Citicorp International Limited has been appointed as Trustee under the Indenture and as Collateral Agent with respect to the Collateral under the Intercreditor Agreement and other Security Documents. Citibank, N.A., London Branch has also been appointed as note registrar (the “Note Registrar”) and paying and transfer agent (the “Paying and Transfer Agent” and, together with the Trustee and the Note Registrar, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, 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.

None of the Trustee, the Paying and Transfer Agent, the Note Registrar, 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 or the 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 Agent’s own fraud, gross negligence or willful misconduct.

Citicorp International Limited will initially act as Trustee and the Collateral Agent under the Security Documents in respect of the Lien over the Collateral. The Trustee, 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 and the Security Documents. Under certain circumstances, the Trustee and the Collateral Agent may have obligations under the Intercreditor Agreement or the Security Documents that are in conflict with the interests of 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 or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Collateral Agent indemnity and/or security satisfactory to the Trustee and/or the Collateral Agent against any loss, liability or expense.

Citicorp International Limited will initially act as the Collateral Agent under the Security Documents in respect of the security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Agreement and the Security Documents. Under certain circumstances, the Collateral Agent may have obligations under the Security Documents, the Indenture or the Intercreditor Agreement that are in conflict with the interests of the Trustee, the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Collateral Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Agreement or any 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 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 and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Collateral Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Global Note”). When issued, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Global Note

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “– Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book- entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the principal paying and transfer agent in U.S. dollars. The principal paying and transfer agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “– Additional Amounts.”

Under the terms of the Indenture, the Company and the Trustee will treat the registered holder of the Global Note (i.e., the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Note

In the event any Global Note, or any portion thereof, is redeemed, the common depository will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depository, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream

interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of their respective agents

will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary 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 cease business permanently or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “– Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the note registrar in sufficient quantities and authenticated by the note registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the note registrar, through the relevant clearing system, with written instruction and other information required by the Company and the note registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail, if intended for the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, addressed to the Company at Block A, Shenzhen Funian Plaza, Intersection of Shihua Road and Zijing Road, Futian Free Trade Zone, Shenzhen 518048, Guangdong Province, China, attention: Company Secretary, or if intended for the Trustee, at the corporate trust office of the Trustee located at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong; or if intended for the Paying and Transfer Agent or the Note Registrar, addressed to the Paying and Transfer Agent or the Note Registrar, as the case may be, at the office of the Paying and Transfer Agent or the Note Registrar located at 1 North Wall Quay, Dublin 1, Ireland (with a simultaneous copy to the Trustee at the corporate trust office of the Trustee noted above); and, if intended for any Holder, addressed to such Holder at such Holder’s last address as it appears in the Note register. Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees 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” will 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.

“2010 Notes” means the 14% Senior Notes due 2015 of the Company, which have been fully repaid.

“2012 Notes” means the 13.75% Senior Notes due 2017 of the Company, which have been fully repaid.

“2014 Notes” means the 10.625% Senior Notes due 2019 of the Company, which have been fully redeemed.

“2015 Notes” means the 11.50% Senior Notes due 2018 of the Company, which have been fully repaid.

“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 July 5, 2020, 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 the Notes on July 5, 2020 (such redemption price being described in the first paragraph in the “– Optional Redemption” section), exclusive of any accrued interest, plus (y) all required remaining scheduled interest payments due on such Note through July 5, 2020 (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.

“April 2019 Notes” means the 11.75% Senior Notes due 2022 of the Company.

“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.

“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 or bank accounts of the Company or a Restricted Subsidiary and/or (ii) Guaranteed by a Guarantee, letter of credit or similar instruments from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange currency or remit money onshore or offshore.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) the Permitted Holders are the beneficial owners of less than 40% 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 U.S. Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the U.S. Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

For the avoidance of doubt, for purposes of this definition of “– Change of Control”, a sale of shares of Capital Stock of a PRC Non-Guarantor Subsidiary to Independent Third Parties in an initial public offering and listing on a stock exchange of the shares of Capital Stock of such PRC Non-Guarantor Subsidiary where such PRC Non-Guarantor Subsidiary (i) remains a Restricted Subsidiary immediately after such sale and (ii) the Company, immediately after such sale, owns, directly or indirectly, at least 30.0% of the Voting Stock of such PRC Non-Guarantor Subsidiary shall not constitute a sale of substantially all properties and assets of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“Collateral Agent” means Citicorp International Limited, as collateral agent under the Intercreditor Agreement, or its permitted successors or assigns.

“Colour Life Group” means the group of Subsidiaries of the Company which are solely engaged in property management, property services and ancillary property community businesses.

“Colour Life IPO” means the restructuring and Qualified IPO of the ordinary shares of a Subsidiary of the Company in the Colour Life Group.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to July 5, 2020 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to July 5, 2020.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is received by the 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 such Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonable best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; provided that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by

any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), only to the extent such interest 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);
- (6) any translation gains and/or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains;

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of this Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available fiscal quarter, semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or

personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the 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 Stated Maturity of the Notes; provided that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “– Limitation on Asset Sales” and “– Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “– Limitation on Asset Sales” and “– Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, provided that such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; provided that any offering or placing referred to in clause (i), clause (ii), or a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; provided that (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, JV Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“Existing Pari Passu Secured Indebtedness” means the May 2016 Notes, the October 2016 Notes, the July 2017 Notes, the March 2018 Notes, the First December 2018 Notes, the Second December 2018 Notes, the March 2019 Notes, the April 2019 Notes, the July 2019 Notes, the January 2020 Notes, the June 2020 Notes and the July 2020 Notes and any other senior notes issued by the Company prior to the issue date of the Additional Notes, the holders of which share the Collateral on a *pari passu* basis with the holders of the Notes and the holders of the other Existing Pari Passu Secured Indebtedness.

“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.

“February 2018 Notes” means the 7.25% Senior Notes due 2019 of the Company, which have been fully repaid.

“First December 2018 Notes” means the 12.0% Senior Notes due 2020 of the Company.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; provided that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness;

- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; provided that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all 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.

Notwithstanding the foregoing, Indebtedness shall not include (1) any capital commitments, deferred payment obligation, 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 (2) Entrusted Loans; provided that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected 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 paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation were terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Insurance Company Investor” means an Independent Third Party that is an insurance company or a financial institution or an Affiliate thereof that invests in the Capital Stock of a Restricted Subsidiary.

“Intercreditor Agreement” has the meaning set forth under “– Security.”

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of 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 Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both, as the case may be.

“Investment Property” means any property that is owned and held by the Company or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“January 2013 Notes” means the 10.75% Senior Notes due 2020 of the Company, which have been fully repaid.

“January 2020 Notes” means the 10.875% Senior Notes due 2023 of the Company.

“June 2017 Notes” means the 5.50% Senior Notes due 2018 of the Company, which have been fully repaid.

“June 2020 Notes” means the 11.875% Senior Notes due 2023 of the Company.

“July 2017 Notes” means the 7.95% Senior Notes due 2022 of the Company.

“July 2020 Notes” means the 9.25% Senior Notes due 2023 of the Company.

“June 2018 Notes” means the 8.50% Senior Notes due 2019 of the Company, which were exchanged into the First December 2018 Notes.

“July 2018 Notes” means the 12.0% Senior Notes due 2019 of the Company, which have been fully repaid.

“July 2019 Notes” means the 12.25% Senior Notes due 2022 of the Company.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its Subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “– The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee. “Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Listed Subsidiaries” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualified Exchange and any Restricted Subsidiary of a Listed Subsidiary; provided that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualified Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“March 2018 Notes” means the 8.375% Senior Notes due 2021 of the Company.

“March 2019 Notes” means the 11.875% Senior Notes due 2020 of the Company.

“May 2013 Notes” means the 7.875% Senior Notes due 2016 of the Company, which matured and have been fully repaid.

“May 2016 Notes” means the 9.50% Senior Notes due 2019 of the Company.

“Measurement Date” means May 12, 2010.

“Minority Joint Venture” means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary and primarily engaged in the Permitted Businesses, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its successors. “Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof)

when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“October 2016 Notes” means the 7.375% Senior Notes due 2021 of the Company.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and Note Registrar 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 and Transfer Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying and Transfer Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; provided that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000.

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; (b) deposit with the Paying and Transfer Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying and Transfer Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent 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. 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 U.S. Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; provided, however, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under this 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.

“Ordinary Course Operating Lease” means the leases entered into in the ordinary course of its business by Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd. of serviced apartments that have been developed and sold by another Restricted Subsidiary to individual investors for a term of no more than three years, pursuant to which Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd. provides management services for such serviced apartments and retain any rental proceeds from tenants that it finds.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Guarantee” means a guarantee by the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or any JV Subsidiary Guarantor; provided that (1) the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption “– Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with the Notes, 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) Pan Jun or Zeng Jie Baby;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed to reduce or manage the exposure of the Company or any Restricted Subsidiary to fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “– Limitation on Asset Sales;”

- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “– Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company’s consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (16) any Investment (including without limitation any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person primarily engaged in a Permitted Business; provided that:
 - (a) none of the other holders of Capital Stock of such Person is a Person described in clauses (x) or (y) of the first paragraph of the covenant described under the caption “– Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such holder being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary, Unrestricted Subsidiary or Minority Joint Venture);
 - (b) no Default has occurred and is continuing or would occur as a result of such Investment; and
 - (c) such Investment, together with (x) the aggregate of all other Investments made under this clause (16) since the Original Issue Date, less (y) an amount equal to the net reduction in all Investments made under this clause (16) since the Original Issue Date resulting from (A) receipt of payments in cash by the Company or any Restricted Subsidiary in respect of all such Investments, including interest on or repayments of loans or advances, dividends or other distributions (except, in each case, to the extent any such payments are included in the calculation of Consolidated Net Income), (B) the

unconditional release of a Guarantee of any obligation of such Person provided under this clause (16) after the Original Issue Date by the Company or any Restricted Subsidiary, (C) to the extent that an Investment made after the Original Issue Date under this clause (16) is sold or otherwise liquidated or repaid for cash, the lesser of (i) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (ii) the initial amount of such Investment, or (D) such Person becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in such Person since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of this “Permitted Investment” definition), not to exceed, in each case, the amount of Investments (other than Permitted investments) made by the Company or any Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (16), will not exceed an aggregate amount equal to 25% of Total Assets;

- (17) any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Colour Life Group in connection with the Colour Life IPO upon designation of the Subsidiaries in the Colour Life Group as Unrestricted Subsidiaries, provided that (A) (i) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the Colour Life Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the Colour Life IPO, (ii) at the time of such designation, the members of the Colour Life Group remain Subsidiaries of the Company, and (iii) at the time of such designation, the members of the Colour Life Group remain primarily engaged in the Permitted Businesses; and (B) the aggregate of all Investments made under this clause (17) since the Original Issue Date shall not exceed an amount equal to 5% of Total Assets (for the avoidance of doubt, any portion of such Investments exceeding 5% of Total Assets shall not constitute a Permitted Investment pursuant to this item but may be made, characterized and accounted for in accordance with the other provisions of the Indenture); and provided further that, at the time when (x) the Company ceases to hold, directly or indirectly, at least 30% of the Voting Stock of any entity so designated as an Unrestricted Subsidiary or (y) any Person or group of Persons other than the Company and its Subsidiaries acquires a higher percentage of the Voting Stock of such entity than the percentage held directly or indirectly by the Company, the Company will be deemed to make an Investment in such entity equal to the Fair Market Value of any Investment that the Company retains, directly or indirectly, in such entity immediately following such event;
- (18) any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the proposed Restructuring upon designation of the Subsidiaries in the Restructuring Group as Unrestricted Subsidiaries, provided that (A) (i) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the Restructuring Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the proposed Restructuring, (ii) at the time of such designation, the members of the Restructuring Group remain Subsidiaries of the Company, and (iii) at the time of such designation, the members of the Restructuring Group remain primarily engaged in the Permitted Businesses; and (B) the aggregate of all Investments made under this clause (18) since the Original Issue Date shall not exceed an amount equal to 5% of Total Assets (for the avoidance of doubt, any portion of such Investments exceeding 5% of Total Assets shall not constitute a Permitted Investment pursuant to this item but may be made, characterized and accounted for in accordance with the other provisions of the Indenture); and provided further that, at the time when (x) the Company ceases to hold, directly or indirectly, at least 30% of the Voting Stock of any entity so designated as an

Unrestricted Subsidiary or (y) any Person or group of Persons other than the Company and its Subsidiaries acquires a higher percentage of the Voting Stock of such entity than the percentage held directly or indirectly by the Company, the Company will be deemed to make an Investment in such entity equal to the Fair Market Value of any Investment that the Company retains, directly or indirectly, in such entity immediately following such event; and

- (19) Guarantees permitted under clause (s) or (t) of the second paragraph of the covenant described under the caption entitled “– Limitation on Indebtedness and Preferred Stock.”

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; provided further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption “– Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “– Limitation on Indebtedness and Preferred Stock”; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “– Security – Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “– Limitation on Indebtedness and Preferred Stock”;
- (17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (18) Liens (including extensions and renewals thereof) upon real or personal property; provided that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; provided that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on the Capital Stock of a Restricted Subsidiary granted by the Company or any Restricted Subsidiary in favor of an Insurance Company Investor to secure Indebtedness Incurred under clause (2)(p) of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;
- (23) Liens Incurred on deposits made or bank account to secure Bank Deposit Secured Indebtedness of the type described under paragraph (r) of the second paragraph of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;
- (24) Liens on deposits to secure Entrusted Loans;
- (25) Liens securing Indebtedness permitted to be Incurred under clause (2)(q) of the covenant entitled “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;
- (26) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause 2(o) of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;
- (27) Liens securing Indebtedness Incurred under clause (2)(s) of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;
- (28) Liens securing Indebtedness Incurred under clause (2)(t) of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;
- (29) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary Incurred under clause 2(u) of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant; and
- (30) Liens on assets of a Non-Guarantor Subsidiary securing any Permitted Subsidiary Indebtedness of any Non-Guarantor Subsidiary permitted to be Incurred under the proviso in paragraph (1) of the “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to 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 (other than Public Indebtedness) of, and all Preferred Stock issued by, the Non-Guarantor Subsidiaries, taken as a whole; provided that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding Public Indebtedness and any Indebtedness of any Non-Guarantor Subsidiary permitted under clauses 2(a), (b), (d), (f) and (g) of the covenant described under “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 20.0% of 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.

“PRC” means the People’s Republic of China which, for the purposes of the Indenture, excludes Hong Kong, Macau and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently promulgated on September 3, 2016 and effective on October 1, 2016) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995 (as most recently amended on March 1, 2017 by the Decision of the State Council on Abolishing and Amending Some Administrative Regulations), as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; provided that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Qualified Exchange” means either (1) The New York Stock Exchange, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the Nasdaq Stock market 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).

“Qualified IPO” means an initial public offering, and a listing, of ordinary shares of a company on a Qualified Exchange; provided that in the case that such listing is on a national securities exchange (as such term is defined in Section 6 of the U.S. Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the U.S. Securities Act), such listing shall result in a public float of no less than the percentage required by the applicable listing rules.

“Rating Agencies” means (1) S&P and (2) Moody’s and (3) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both, 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 Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “B-” to “B+”, will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “– Consolidation, Merger and Sale of Assets”, that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by 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 are rated by both Moody’s and S&P 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 are 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 are rated below Investment Grade by both Rating Agencies 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).

“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 Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5: 00 p.m. on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“Restructuring” means the restructuring and Qualified IPO of the ordinary shares of a Subsidiary of the Company in the Restructuring Group.

“Restructuring Group” means the group of Subsidiaries of the Company which are solely engaged in businesses related, ancillary or complementary to property development business including, as of the Original Issue Date, commercial property management, hotel management, financial leasing, community P2P financial business, retirement life services and educational consultancy business.

“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. Notwithstanding the foregoing, “Sale and Leaseback Transaction” shall not include the sale or transfer of real property to another Person that is leased by the Company or any Restricted Subsidiary pursuant to an Ordinary Course Operating Lease.

“Second December 2018 Notes” means the 15.0% Senior Notes due 2021 of the Company.

“Secured Parties” means, collectively, (i) the trustee for each series of the Existing Pari Passu Secured Indebtedness (for itself and for the benefit of the holders of such series of the Existing Pari Passu Secured Indebtedness); (ii) the Trustee (for itself and for the benefit of the holders of the Notes); and (iii) (x) the holder of any Permitted Pari Passu Secured Indebtedness (if there is only one creditor with respect to any series of Permitted Pari Passu Secured Indebtedness) or (y) the representative or agent of the holders of any Permitted Pari Passu Secured Indebtedness (if there is more than one such creditor), in each case that has become a party to the Intercreditor Agreement on behalf of itself, or as the case may be, holder(s) of Permitted Pari Passu Secured Indebtedness.

“Secured Parties Representatives” means, collectively, the Trustee, the trustee for each series of the Existing Pari Passu Secured Indebtedness and the holders (or their representatives or agents) of any Permitted Pari Passu Secured Indebtedness, in each case that are parties to the Intercreditor Agreement or other similar agreements pursuant to the terms of the Indenture, if any.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Trustee and/or any Holders in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; provided that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Significant Restricted Subsidiary” means a Restricted Subsidiary, or group of Restricted Subsidiaries, that would, when taken together, be a “significant subsidiary” within the meaning of the definition of “significant subsidiary” in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Original Issue Date; provided that in each instance in such definition in which the term “10 percent” is used, the term “5 percent” shall be substituted therefor.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, (i) any corporation, association or other business entity 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 a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; provided that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges 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 United Kingdom, 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) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area, the United Kingdom or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 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;
- (7) 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, Hong Kong, Singapore or anywhere the Company or any Restricted Subsidiary conducts business operations; and
- (8) structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC, Hong Kong, Singapore or anywhere the Company or any Restricted Subsidiary conducts business operations if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months’ notice.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); provided that only with respect to clause (2)(h) of “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“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. On the Original Issue Date, the Unrestricted Subsidiaries include Cai Hua Holdings Limited (彩華控股有限公司), Twinkle Electronic Company Limited (天歌電子有限公司), Shenzhen Anbo Electronics Company Limited (深圳安博電子有限公司), Trade Dragon Holdings Limited (勝圖控股有限公司), Jurong Duocai Agriculture Ecological Park Development Company Limited (句容多彩農業生態園發展有限公司), Fantasia Commercial Management Holdings Group Co., Limited (花樣年商業管理控股集團有限公司), Well Achieve Enterprises Limited (偉達企業有限公司), Rosy Advance Holdings Limited (世鑫控股有限公司), Shenzhen Meilang Commercial Management Company Limited (深圳美朗商業管理有限公司), Shenzhen Huawannian Commercial Management Company Limited (深圳市花萬年商業管理有限公司),

Fantasia Cultural Tourism Management Holdings Group Co., Limited (花樣年文化旅游管理控股集團有限公司), Fantasia Cultural Tourism Management Group Co., Limited (花樣年文化旅游管理集團有限公司), Fantasia Cultural Tourism Management (HK) Group Co., Limited (花樣年文化旅游管理集團(香港)有限公司), Fantasia Culture Tourism Management Group (USA) Corporation (花樣年文化旅游管理集團(美國)公司), GOWO Holdings Limited (高和控股有限公司), Shenzhen Fantasia Cultural and Tourism Management Company Limited (深圳市花樣年文化旅游管理有限公司), Hong Kong FuNian Jet Aviation Limited (香港福年航空有限公司), Shenzhen Qiertang Club Management Company Limited (深圳市七二唐俱樂部管理有限公司), Shenzhen Fantasia Tourism Area Management Company Limited (深圳市花樣年旅游景區管理有限公司), Shenzhen Fantasia Dining Planning Management Company Limited (深圳市花樣年餐飲策劃管理有限公司), Chengdu Fantasia Wangcong Cultural Development Company Limited (成都花樣年望叢文化發展有限公司), Shenzhen Fantasia Engineering Consulting Company Limited (深圳市花樣年工程建設諮詢有限公司), Shenzhen Yizhinian Cultural Development Company Limited (深圳市藝之年文化藝術發展有限公司), Fantasia Senior Housing Management Holdings Group Co., Limited (花樣年養生養老管理控股集團有限公司), Fantasia Senior Housing Management Group Co., Limited (花樣年養生養老管理集團有限公司), Fantasia Senior Housing Management (HK) Group Co., Ltd (花樣年養生養老管理集團(香港)有限公司), Shenzhen Fantasia Health Endowment Management Company Limited (深圳市花樣年養生養老管理有限公司), Shenzhen Futainian Investment Management Company Limited (深圳市福泰年投資管理有限公司), Chengdu Futainian Enterprise Management Company Limited (成都市福泰年企業管理有限公司), Chengdu Fulin Senior Housing Services Company Limited (成都市福鄰養老服務有限公司), Chengdu Wuhou Fulin Chinese Medicine Clinic Company Limited (成都武侯福鄰中醫診所有限公司), Fantasia Hotel Management Holdings Group Co., Limited (花樣年酒店管理控股集團有限公司), Fantasia Hotel Management Group Co., Limited (花樣年酒店管理控股集團有限公司), Fantasia Hotel Management Group (HK) Co., Limited (花樣年酒店管理集團(香港)有限公司), Shenzhen Huawanli Hotel Management Company Limited (深圳市花萬裏酒店管理有限公司), Shenzhen Fantasia Hotel Management Company Limited (深圳市花樣年酒店管理有限公司), Chengdu Fantasia Qu Yuan Hotel Management Company Limited (成都花樣年趣園酒店管理有限公司), Yixing Town on Water Hotel Management Company Limited (宜興市雲海間酒店管理有限公司), Pujiang Grande Valley Hotel Management Company Limited (蒲江縣大溪穀酒店管理有限公司), Fantasia (Taiwan) Development Co., Ltd. (台灣花樣年開發股份有限公司), Treasure Isle Holdings Limited (寶島控股有限公司), Joint Gift Limited (匯禮有限公司), Hiatt Investment Limited (海逸投資有限公司), Fantasia Property Management (International) Company Limited (花樣年物業管理(國際)有限公司), Prominent Sing Limited (萃聲有限公司), Tokyo Fantasia Investment Co., Ltd. (東京花樣年投資株式會社), An Chuang Group Limited (安創集團有限公司), Advance Era Holdings Limited (晉泰控股有限公司), Bliss Virtue Limited (德祐有限公司), Immense Wealth Holdings Limited (廣鑫控股有限公司), Fantasia Investment (Singapore) Pte Ltd., Zhao Xing Holdings Limited, Ace Link Pacific Ltd. Colour Life Service Group (HK) Co., Limited (彩生活服務集團(香港)有限公司), Yahao Technology Development (Shenzhen) Company Limited (雅浩科技發展(深圳)有限公司), Colour Life Services Group Co., Ltd., Tong Yuan Holdings Limited (通源控股有限公司), Novel Era Holdings Limited (通天控股有限公司), Century Property Management Limited (世紀物業管理有限公司), Steadlink Asset Management Pte Ltd., Shenzhen Colour Life Community Technology Services Company Limited (深圳市彩生活社區科技服務有限公司), Shenzhen Colour Life Services Group Co., Limited (深圳市彩生活服務集團有限公司), Shenzhen Gaorunda Equity Investment Company Limited (深圳市高潤達股權投資有限公司), Shenzhen Qianhai Shengfengtongda Equity Investment Company Limited (深圳市前海盛峰通達股權投資有限公司), Yulin Rongxin Property Management Company Limited (榆林市榮鑫物業管理有限公司), Yichang Kunda Property Management Company Limited (宜昌坤達物業有限公司), Nanjing Anju Property Management Company Limited (南京安居物業有限公司), Nanjing Mingcheng Property Management Company Limited (南京名城物業管理有限公司), Hangzhou Gaosheng Property Management Company Limited (杭州高盛物業管理有限公司), Heyuan Colour Life Property Management Company Limited (河源市華達物業管理有限公司), Shenzhen Xingyanhang Property Company Limited (深圳市星彥行置

業有限公司), Tieling Zhengnan Property Management Company Limited (鐵嶺正南物業管理有限公司), Shenzhen Colour Life Property Management Company Limited (深圳市彩生活物業管理有限公司), Huizhou Youlin Property Management Company Limited (惠州市友鄰物業管理有限公司), Shenzhen Colour Life Network Services Company Limited (深圳市彩生活網絡服務有限公司), Jiangsu Colour Life Residential Technology Company Limited (江蘇彩生活住宅科技有限公司), Henan Qicai Internet Technology Company Limited (河南啟彩網絡科技有限公司), Shenzhen Caizhiyun Network Technology Company Limited (深圳市彩之雲網絡科技有限公司), Shenzhen Kaiyuan Tongji Building Science & Technology Company Limited (深圳市開元同濟樓宇科技有限公司), Shenzhen Ancaihua Energy Investment Company Limited (深圳市安彩華能源投資有限公司), Nanchang Juan Property Management Company Limited (南昌居安物業管理有限公司), Henan Ruixiang Property Management Company Limited (河南瑞祥物業管理有限公司), Changsha Xiangwang Property Management Company Limited (長沙祥旺物業管理有限公司), Xiangyang Jiangshanxinyuan Property Services Company Limited (襄陽江山新苑物業服務有限責任公司), Shenyang Tianshenghepan Property Management Company Limited (瀋陽天盛河畔物業管理有限公司), Yangzhou Everlasting Property Services Development Company Limited (揚州市恒久物業服務發展有限公司), Henan Huajing Property Services Company Limited (河南華璟物業服務有限公司), Hubei Fenglin Property Services Company Limited (湖北楓林物業服務有限公司), Shanghai Yinshun Property Management Company Limited (上海銀順物業管理有限公司), Shaanxi Liantang Property Services Company Limited (陝西蓮塘物業服務有限公司), Qinhuangdao Hongtianyuan Property Services Company Limited (秦皇島市宏添源物業服務有限公司), Shaanxi Colour Life Property Management Company Limited (陝西彩生活社區服務有限公司), Yinchuan Dushijia Property Services Company Limited (銀川都市佳物業服務有限公司), Shaanxi Caiyifei Property Management Company Limited (陝西彩逸飛物業管理有限公司), Nanjing Huitao Property Management Services Company Limited (南京慧韜物業服務有限公司), Shanghai Xinzhou Property Management Company Limited (上海欣周物業管理有限公司), Shanghai Xinzhou Yipu Property Management Company Limited (上海欣周逸浦物業管理有限公司), Nanjing Jinjiang Property Management Company Limited (南京錦江物業管理有限公司), Wuxi Taihu Garden Property Management Company Limited (無錫市太湖花園物業管理有限責任公司), Wuxi Mingzhu Horticulture Company Limited (無錫市明珠園藝有限責任公司), Jiujiang Tianhong Property Services Company Limited (九江天宏物業服務有限公司), Harbin Colour Steward Property Management Company Limited (哈爾濱彩管家物業管理有限公司), Jiangsu Chengzhi Property Services Company Limited (江蘇城置物業服務有限公司), Xuzhou Hubin Garden Property Management Company Limited (徐州市濱湖花園物業管理有限公司), Changzhou Jiangnanzhongxin Property Services Company Limited (常州江南中鑫物業服務有限公司), Tieling Shijizhongtian Property Management Company Limited (鐵嶺世紀中天物業管理有限公司), Foshan Colour Life Property Management Company Limited (佛山彩生活物業管理有限公司), Shenzhen Kaiyuan International Property Management Company Limited (深圳市開元國際物業管理有限公司), Colour Cloud Holdings Group Co., Limited (彩之雲控股集團有限公司), Colour Cloud Group Co., Limited (彩之雲集團有限公司), Colour Cloud Group (HK) Co., Limited (彩之雲集團(香港)有限公司), Shenzhen Qianhai Colour Cloud Network Technology Company Limited (深圳市前海彩之雲網絡科技有限公司), Colour Pay Group (HK) Co., Limited (彩付寶集團(香港)有限公司), Shenzhen Qianhai Colour Pay Network Technology Company Limited (深圳市前海彩付寶網絡技術有限公司), Colour Pay Treasure Holdings Group Co., Limited (彩付寶控股集團有限公司), Colour Pay Group Co., Limited (彩付寶集團有限公司), Shanxi Xinchang Property Management Company Limited (陝西鑫昌物業管理有限公司), Nanchang Happiness Property Management Company Limited (南昌幸福物業管理有限公司), Ganzhou Jintong Property Management Company Limited (贛州錦通物業管理有限公司), Guangxi Nanning Hanxin Property Services Company Limited (廣西南寧瀚新物業服務有限公司), Guilin Renhe Property Services Company Limited (桂林市仁和物業服務有限公司), Xiamen Chuangyou Property Management Company Limited (廈門市創優物業管理有限公司), Suzhou Yiya Property Management Company Limited (蘇州易亞物業管理有限公司), Fuzhou Hongde Property Company Limited (撫州鴻德物業有限公司), Suzhou Yuehuazhihe Property Services Company Limited (蘇州悅華置合物業管理有限公司), Ningxia Tianyuziyue Property

Services Company Limited (寧夏天雨子越物業服務管理有限公司), Qingyuan Steward Property Management Company Limited (清遠市大管家物業管理有限公司), Changsha Gaosheng Property Management Company Limited (長沙高盛物業管理有限公司), Nanchang Mingtai Property Management Company Limited (南昌名泰物業管理有限公司), Huludao Wansha Property Management Company Limited (葫蘆島市萬厦物業管理有限公司), Sichuan Shufeng Property Services Company Limited (四川蜀峰物業服務有限公司), Hangzhou Lixuan Property Management Company Limited (杭州利軒物業管理有限公司), Yangzhou Xingda Property Services Company Limited (揚州市興達物業服務有限責任公司), Guangxi Fulai Property Services Company Limited (廣西福來物業服務有限責任公司), Jingzhou Chuyang Property Management Company Limited (荊州市楚陽物業管理有限公司), Shanghai Tongyi Property Company Limited (上海通翼物業有限公司), Chengdu Heli Property Services Company Limited (成都合力物業服務有限公司), Chengdu Zhongxinyinglianhua Property Management Consultancy Company Limited (成都忠信英聯華物業管理顧問有限公司), Henan Liansheng Property Services Company Limited (河南聯盛物業管理有限公司), Guizhou Huhao Colour Life Property Management Company Limited (貴州互豪彩生活物業管理有限公司), Wuxi Shengtai Property Management Company Limited (無錫市盛泰物業管理有限公司), Shanghai Xinguisheng Property Management Company Limited (上海新貴盛物業管理有限公司), Qingyuan Jinli Property Management Company Limited (清遠金力物業管理有限公司), Wuhan Kailefengyin Property Management Company Limited (武漢凱樂豐垠物業管理有限公司), Chongqing Yucai Property Management Company Limited (重慶渝彩物業管理有限公司), Suzhou Wanbao Property Management Company Limited (蘇州萬寶物業管理有限公司), Shenzhen Qicai Growth Training Consultancy Company Limited (深圳市七彩成長培訓諮詢有限公司) and Xian Rongxin Property Management Company Limited (西安榮鑫物業管理有限公司).

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; provided that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal or premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2010 but is otherwise not party to any double taxation treaties.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

The Company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with the Company:

- That no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of the Company, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of 20 years from October 30, 2007.

Hong Kong

Withholding Tax. No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax. Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty. No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PRC Taxation

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 and Capital Gains. PRC income tax at the rate of 10% (or lower treaty rate, if any) is withheld from interest payable to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. Any gain realized on the transfer of the Notes by such investors is subject to a 10% (or lower treaty rate, if any) PRC income tax if such gain is regarded as income of a “non-resident enterprise” derived from sources within the PRC. As advised by Commerce & Finance Law Offices, our PRC legal counsel, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are considered a PRC resident enterprise, interest and capital gains realized by non-resident holders of the

Notes may be treated as income derived from sources within the PRC and may be subject to PRC tax (which in the case of interest may be withheld at source) at the rate of 10% where the holder is an enterprise pursuant to the EIT Law, or at the rate of 20% where the holder is an individual pursuant to PRC individual income tax laws. See “Risk Factors – Risks Relating to Our Business – We may be deemed a PRC resident under the EIT Law and be subject to PRC taxation on our worldwide income” and “– Risks Relating to the Notes – Interest payable by us to our foreign investors and gain on sale of our Notes may be subject to withholding taxes under PRC tax laws.”

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

PLAN OF DISTRIBUTION

Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, Singapore Branch, UBS AG Hong Kong Branch and Haitong International Securities Company Limited are acting as the joint bookrunners and joint lead managers of the offering and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Additional Notes set forth opposite such Initial Purchaser's name.

Initial Purchasers	Principal Amount of Additional Notes
Barclays Bank PLC	US\$40,000,000
BNP Paribas	US\$40,000,000
Deutsche Bank AG, Singapore Branch	US\$40,000,000
UBS AG Hong Kong Branch	US\$40,000,000
Haitong International Securities Company Limited	US\$40,000,000
Total	US\$200,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The purchase agreement may be terminated by the Initial Purchasers in certain circumstances prior to the delivery and payment of the Additional Notes.

The Initial Purchasers propose to resell the Additional 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 under the U.S. Securities Act. See "Transfer Restrictions." The price at which the Additional Notes are offered may be changed at any time without notice. In addition, we have agreed with the Initial Purchasers that certain private banks will be paid a commission in connection with the purchase of the Additional Notes by their private bank clients.

The Additional Notes will constitute a new class of securities with no established trading market. The Original Notes are listed and quoted on the SGX-ST. Application has been made to the SGX-ST for the listing and quotation of the Additional Notes on the SGX-ST. However, we cannot assure you that the prices at which the Additional 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 Additional Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Additional Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Additional Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Additional Notes.

In connection with the offering, the Initial Purchasers may purchase and sell the Additional Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Initial Purchasers of a greater number of Notes than they are required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.

- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Initial Purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Additional Notes. They may also cause the price of the Additional Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commences any of these transactions, they may discontinue them at any time.

We expect to deliver the Additional Notes against payment for the Additional Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the third business day following the date of the pricing of the Additional Notes.

Selling Restrictions

General

The Initial Purchasers or their respective affiliates have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their respective affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of their businesses for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers, which may include transactions relating to our obligations under the Additional Notes. Our obligations under these transactions may be secured by cash or other collateral.

The Initial Purchasers or their respective affiliates may purchase the Additional Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Additional Notes and/or other securities of ours or of our subsidiaries or affiliates at the same time as the offer and sale of the Additional Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

No action has been taken or will be taken in any country or jurisdiction that would permit a public offering of the Additional Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Additional Notes, in any jurisdiction where action for any such purpose may be required. Accordingly, the Additional 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.

Prohibition of sales to EEA and UK retail investors

The Additional 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 or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined

in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of 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 the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Additional Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Additional Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPS Regulation.

United States

The Additional Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantee (if any) have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered or sold within the United States and may only be offered or sold outside the United States in compliance with Regulation S under the U.S. Securities Act. See “Transfer Restrictions.”

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act.

United Kingdom

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

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

Hong Kong

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

Japan

The Additional 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 Additional Notes. Accordingly, the Additional 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 reoffering or resale, 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 (the “MAS”) 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 Additional Notes may not be circulated or distributed, nor may the Additional Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Additional Notes are initially subscribed or purchased by (i) an institutional investor under Section 274 of the SFA, or (ii) a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, the Additional Notes may only be sold or transferred: (a) at any time, to an institutional investor under Section 274 of the SFA; (b) at any time, to a relevant person defined in Section 275(2) of the SFA or to any person pursuant to an offer referred to in Section 275(1A) of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Additional 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 Additional Notes pursuant to an offer made under Section 275 of the SFA except:

- 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;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or

- as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

PRC

This offering memorandum does not constitute a public offer of the Additional Notes, whether by sale or by subscription, in the PRC. The Additional Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

Cayman Islands

No Notes will be offered or sold to the public in the Cayman Islands.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Additional Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Additional Notes.

The Additional Notes are subject to restrictions on transfer as summarized below. By purchasing the Additional Notes, you will be deemed to have made the following acknowledgements, representations to, and agreements with, us:

1. You understand and acknowledge that:
 - the Additional Notes have not been registered under the U.S. Securities Act or any other applicable securities laws;
 - the Additional Notes are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws; and
 - the Additional Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.
2. You represent that you are not an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, and you are purchasing the Additional Notes in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.
3. You acknowledge that neither we nor any person representing us has made any representation to you with respect to us or the offering of the Additional Notes, 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 Additional Notes. You agree that you have had access to such financial and other information concerning us and the Additional Notes as you have deemed necessary in connection with your decision to purchase the Additional Notes including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Additional Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Additional Notes in violation of the U.S. Securities Act.
5. You acknowledge that we 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 Additional Notes is no longer accurate, you will promptly notify us. If you are purchasing any Additional Notes 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.

6. You also acknowledge that this offering memorandum has not been and will not be registered as a prospectus with the MAS under the SFA. Accordingly, you have represented, warranted and agreed that you have not offered or sold any Additional Notes or caused the Additional Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Additional Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will you circulate or distribute, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Additional Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

RATINGS

The Original Notes are rated B by Standard and Poor's Rating Services and B3 by Moody's Investors Service and we do not expect the rating to change as a result of the issuance of the Additional Notes. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Additional Notes. The ratings do not constitute recommendations to purchase, hold or sell the Additional Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Additional Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of B with a stable outlook by Standard and Poor's Rating Services, a long-term issuer default rating of B+ with a stable outlook from Fitch Rating Ltd. and a corporate family rating of B2 with a stable outlook by Moody's Investors Service. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of United States federal and New York law and Hong Kong law, Commerce & Finance Law Offices as to matters of PRC law, Conyers Dill & Pearman as to matters of Cayman Islands law and as to matters of British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell as to matters of United States federal and New York law and King & Wood Mallesons as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements as of and for the three years ended December 31, 2017, 2018 and 2019 included in this offering memorandum have been audited by Deloitte Touche Tohmatsu, certified public accountants, as stated in their reports appearing herein.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands 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 August 10, 2020.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes.

No Material Adverse Change

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2019 that is material in the context of the issue of the Notes.

Documents Available

For so long as any of the Notes is outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying and transfer agents.

For so long as any of the Notes is outstanding, copies of the accountants' reports and/or our published financial statements, if any, including the accountants' report set out in the section entitled "Index to Consolidated Financial Statements" in this offering memorandum, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying and transfer agents.

Clearing Systems and Settlement

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

	<u>ISIN</u>	<u>Common Code</u>
The Additional Notes	XS1640676885	164067688

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

Listing of the Notes

The Original Notes are listed and quoted on the SGX-ST. Application has been made to the SGX-ST for the listing and quotation of the Additional Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees. Under the rules of the SGX-ST, the Notes, if traded on the SGX-ST, are required to be traded in a minimum board lot size of

S\$200,000 (or its equivalent in foreign currencies). Accordingly, 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 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 individual definitive 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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Notes:

- (1) *The audited consolidated financial statements set out herein has been reproduced from the Company's annual report for the year ended December 31, 2019 and pages references to pages set forth in such report.*

- (2) *The audited consolidated financial statements set out herein has been reproduced from the Company's annual report for the year ended December 31, 2018 and page referencies are to pages set forth in such report.*

**TO THE MEMBERS OF FANTASIA HOLDINGS GROUP CO., LIMITED**

花樣年控股集團有限公司

*(Incorporated in the Cayman Islands with limited liability)***OPINION**

We have audited the consolidated financial statements of Fantasia Holdings Group Co., Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 87 to 262, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 matter

How our audit addressed the key audit matter

Valuation of properties for sale

We identified the valuation of properties for sale as a key audit matter due to the significant estimates involved in the determination of net realisable value (the “NRV”) of the properties for sale. As disclosed in note 31 to the consolidated financial statements, the Group had properties under development for sale of RMB24,983,074,000 and completed properties for sale of RMB10,490,488,000 (collectively referred to as the “properties for sale”) as at 31 December 2019, which are situated in the People’s Republic of China (the “PRC”). Certain residential properties and carparks of the Group are not located in the downtown with the slim profit margins which indicate possible potential impairment loss on the properties for sale.

As disclosed in note 4 to the consolidated financial statements, the properties for sale are stated at the lower of cost and the NRV. The NRV is determined by reference to the estimated selling prices of the properties for sale, which takes into account a number of factors including the latest market prices of similar property types in the same project or by similar properties, and the prevailing real estate market conditions in the PRC, less estimated selling expenses and estimated cost to completion.

The management assessed the NRV of the properties with possible potential impairment indication with reference to the valuations carried out by an independent qualified professional valuer not connected with the Group (“the Valuer”). Based on the management’s analysis of the property for sale, no write-downs were considered to be necessary in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

Our procedures in relation to assessing management’s assessment of the valuation of properties for sale included:

- Assessing the management’s process of reviewing the budgeted cost of the properties for sales and the determination of the NRV of properties for sales;
- Evaluating the reasonableness of the estimated cost to completion of the properties under development for sale, on a sample basis, by comparing it to the actual development cost of similar completed properties and comparing the adjustments made by the management to current market data;
- Assessing the appropriateness of the estimated selling prices of the properties for sale used by the management with reference to the latest market prices achieved in the same projects or by comparable properties, including an evaluation of the appropriateness of the comparable properties used by the management of the Group based on our knowledge of the Group’s business and the PRC real estate industry;
- Obtaining the valuation reports provided by the Valuer for the residential properties and carparks with possible potential impairment indication and comparing the carrying amounts of the aforesaid residential properties and carparks to the corresponding valuation amounts;
- Assessing the competence, capabilities and objectivity of the Valuer; and
- Obtaining the detailed work of the Valuer on the residential properties and carparks with possible potential impairment indication to evaluate the accuracy and relevance of key data inputs underpinning the valuation and challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in the PRC.

Key audit matter**How our audit addressed the key audit matter****Recoverability of trade receivables**

We identified the recoverability of trade receivables as a key audit matter due to the significance of the balance to the consolidated financial statements, combined with the significant degree of estimations, in evaluating the expected credit loss ("ECL") of trade receivables which may affect the carrying value at the end of the reporting period.

As disclosed in note 4 to the consolidated financial statements, the management used provision matrix to calculate the ECL of trade receivables and the provision rates are based on debtors' aging and taken into consideration the historical default rates and the forward-looking information. As disclosed in note 34 to the consolidated financial statements, the carrying amount of trade receivables is RMB2,503,553,000 as at 31 December 2019, after net off the allowance for impairment losses of RMB83,767,000, and the allowance for impairment losses of RMB22,603,000 was recognised in profit or loss for the year end 31 December 2019.

Our procedures in relation to assessing the recoverability of trade receivables included:

- Obtaining an understanding on how the management assess the ECL of trade receivables by apply the ECL model;
- Testing the integrity of information used by management about the trade receivables which are assessed for ECL individually, on a sample basis, to the source documents, including the terms set out in the sales and purchase agreements, mortgage approval documents from the banks to substantiate the unconditional approval of mortgage facilities granted by the banks to the property buyers regarding the sale by mortgage, bank statements and bank slips regarding the sale by instalments;
- Testing the integrity of information used by management to develop the provision matrix, including the aging analysis, on a sample basis, to the source documents, including invoices and demand notes;
- Evaluating the appropriateness of the expected average loss rates applied by reference to the historical recovery rate, probability of default by its customers and forward-looking information; and
- Evaluating the disclosures regarding the impairment assessment of the trade receivables in note 51 to the consolidated financial statements.

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the estimates associated with determining the fair value. As disclosed in note 17 to the consolidated financial statements, the investment properties of the Group mainly represent commercial buildings, offices and carparks located in the PRC and carried at RMB11,924,404,000 as at 31 December 2019, including completed investment properties of RMB10,072,304,000 and investment properties under construction of RMB1,852,100,000, which represent 12.5% of the Group's total assets. Loss from change in fair value of investment properties of RMB6,165,000 were recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

All of the Group's investment properties are stated at fair value based on valuations performed by the Valuer. Details of the valuation techniques and key inputs used in the valuations are disclosed in note 17 to the consolidated financial statements. The valuations of the completed investment properties are dependent on certain key inputs, including term yield, reversionary yield, vacancy ratio and adjustment made to account for differences in location. The valuations of investment properties under construction are dependent on gross development values, developer's profit, marketing costs, construction costs to completion, and market unit sales price.

Our procedures in relation to assessing the appropriateness of the carrying values of the investment properties included:

- Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement;
- Evaluating the appropriateness of the Valuer's valuation approach to assess if they are consistent with the requirements of HKFRSs and industry norms;
- Obtaining the detailed work of the Valuer, particularly the key inputs to the valuation on completed investment properties including but not limited to the comparable market prices of properties, term yield, reversionary yield of rental income and vacancy ratio; and the key inputs to the valuation on investment properties under construction including but not limited to the gross development values, developer's profit, marketing costs, construction costs to completion;
- Evaluating the accuracy and relevance of key data inputs underpinning the valuation and challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in the PRC;
- Obtaining the latest budget for construction and other costs of investment properties under construction and checking to the information obtained by the Valuer for the valuation; and
- Evaluating the sensitivity analysis prepared by the management on the key inputs to evaluate the magnitude of their impacts on the fair values and assessing the appropriateness of the disclosures relating to these sensitivity analysis.

Key audit matter**How our audit addressed the key audit matter****Impairment assessment of goodwill**

We identified the impairment assessment of goodwill arising on acquisition of property operation businesses through acquisition of subsidiaries as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant degree of estimations made by the management of the Group associated with the recoverable amount of the cash-generating units to which goodwill has been allocated.

As disclosed in note 4 to the consolidated financial statements, the management assessed the impairment of goodwill by estimation of recoverable amount of the cash-generating units to which goodwill has been allocated which is the higher of the value-in-use and fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit based on five-year financial budgets approved by the management of the Group and a suitable discount rate in order to calculate the present value. Key estimates involved in the preparation of cash flow projections for the period covered by the approved financial budgets include the growth rates, discount rates and expected future cash inflows/outflows including revenue, gross profit and operating expenses estimated. As disclosed in note 22 to the consolidated financial statements, the carrying amount of goodwill of property operation business was RMB2,329,732,000 representing 2.4% of total assets of the Group, the balance of impairment was RMB870,000 as at 31 December 2019 and no impairment loss was recognised by the management of the Group during the year ended 31 December 2019.

Our procedures in relation to the impairment assessment of goodwill included:

- Discussing with the management to understand the key estimations made by the management in the impairment assessment of goodwill including the growth rates, discount rates and expected future cash inflows/outflows including revenue, gross profit and operating expenses estimated;
- Evaluating the reasonableness of the growth rates and expected future cash inflows/outflows, including revenue, gross profit and operating expenses estimated, based on the Group's historical financial performance;
- Evaluating the appropriateness of discount rates applied in the forecast by comparing them to economic and industry data; and
- Evaluating the reasonableness of the financial budgets approved by the management and the cash flow projections by comparing the actual results of those cash-generating units to the previously forecasted results used in the impairment assessment of goodwill.

Key audit matter**How our audit addressed the key audit matter**

Revenue recognised from sales of completed properties

We identified revenue recognised from sales of completed properties as a key audit matter as it is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income.

The Group's revenue from sales of completed properties for the year ended 31 December 2019 amounted to RMB12,866,088,000, which is disclosed in note 5 to the consolidated financial statements, representing 68.1% of the Group's total revenue. As disclosed in note 5 to the consolidated financial statements, revenue from sales of properties is recognised when control of completed property is transferred to the customer, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

Our procedures in relation to revenue recognised from sales of completed properties included:

- Obtaining an understanding of and assessing the effectiveness of the Group's internal control over the process of transferring the control of completed properties to the customers and determining the point of time at which revenue from sales of properties is recognised;
- Inspecting, on a sample basis, the terms set out in the sale and purchase agreements to understand the point that the customers obtain the control of the completed properties and the Group has present right to payment and the collection of the consideration is probable; and
- Evaluating whether the control of completed properties have been transferred to the customers by checking, on a sample basis, to the terms of the sale and purchase agreements, the relevant completion certificate for construction work, the delivery notice sent to the customers and the settlement status of the consideration.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Lam Chi Hong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue			
Contracts with customers	5	18,881,799	13,733,624
Leases		199,778	252,509
Total revenue		19,081,577	13,986,133
Cost of sales and services		(13,744,216)	(9,802,167)
Gross profit		5,337,361	4,183,966
Other income	7	139,944	149,649
Other gains and losses	7	1,189,403	561,873
Impairment losses under expected credit loss model, net of reversal	8	(139,628)	(82,424)
Change in fair value of investment properties	17	(6,165)	136,802
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	31	(1,110)	82,409
Selling and distribution expenses		(469,538)	(439,032)
Administrative expenses		(1,361,840)	(1,389,214)
Finance costs	9	(1,831,761)	(1,464,674)
Share of results of associates		10,738	34,880
Share of results of joint ventures		(29,626)	(11,140)
Gain on disposal of subsidiaries	48	944,903	1,273,824
Profit before tax	11	3,782,681	3,036,919
Income tax expense	10	(2,280,776)	(1,868,735)
Profit for the year		1,501,905	1,168,184
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Fair value change on hedging instruments designated as cash flow hedges		439	–
Items that will not be reclassified subsequently to profit or loss:			
Fair value gain on equity instruments designated at FVTOCI		5,483	–
Remeasurement of defined benefit obligations		–	(238)
Deferred taxation effect		(1,371)	60
		4,112	(178)
Other comprehensive income (expense) for the year, net of income tax		4,551	(178)
Total comprehensive income for the year		1,506,456	1,168,006
Profit for the year attributable to:			
Owners of the Company		873,644	728,339
Other non-controlling interests		628,261	439,845
		1,501,905	1,168,184
Total comprehensive income for the year attributable to:			
Owners of the Company		876,208	728,233
Other non-controlling interests		630,248	439,773
		1,506,456	1,168,006
Earnings per share – basic (RMB cents)	14	15.15	12.64
Earnings per share – diluted (RMB cents)	14	15.08	12.58

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,172,059	2,596,806
Right-of-use assets	16	1,049,134	–
Investment properties	17	11,924,404	10,515,977
Interests in associates	18	757,497	1,346,586
Interests in joint ventures	19	2,686,998	1,426,958
Equity instruments designated at fair value through other comprehensive income (“FVTOCI”)	21	60,086	51,551
Goodwill	22	2,398,921	2,339,723
Intangible assets	23	1,129,725	1,188,896
Prepaid lease payments	24	–	206,743
Premium on prepaid lease payments	25	–	76,418
Other receivables	34	610,511	158,698
Contract assets	32	22,229	–
Amounts due from related parties	26	958,190	81,505
Pledged bank deposits	35	547,500	558,457
Deposits paid for potential acquisitions of subsidiaries and investments in associates and joint ventures	27	852,027	194,427
Deposit paid for acquisition of a property project	28	–	202,961
Deposits paid for acquisition of land use rights	29	–	228,703
Deferred tax assets	30	710,650	565,707
		25,879,931	21,740,116
CURRENT ASSETS			
Properties for sale	31	35,473,562	34,882,404
Inventories		117,177	544,407
Prepaid lease payments	24	–	6,750
Premium on prepaid lease payments	25	–	2,548
Contract assets	32	736,724	449,590
Contract costs	33	410,502	201,414
Trade and other receivables	34	7,864,902	5,938,028
Tax recoverable		337,503	105,212
Amounts due from related parties	26	832,459	436,411
Financial assets at fair value through profit or loss (“FVTPL”)	20	1,449,051	2,127,196
Derivative financial instruments	45	1,241	–
Restricted/pledged bank deposits	35	2,117,174	1,789,411
Bank balances and cash	35	20,379,733	26,222,584
		69,720,028	72,705,955
		95,599,959	94,446,071

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES			
Trade and other payables	36	8,398,790	10,393,583
Contract liabilities	37	19,160,338	13,039,071
Derivative financial instruments	45	13,759	–
Amounts due to related parties	38	843,853	356,189
Tax liabilities		6,347,498	5,504,651
Borrowings due within one year	39	6,430,202	7,959,810
Lease liabilities	40	95,181	–
Obligations under finance leases	41	–	69,164
Senior notes and bonds	42	4,963,714	6,397,660
Asset-backed securities issued	43	87,483	208,636
Provisions	44	37,440	30,740
Other current liabilities		–	2,625
		46,378,258	43,962,129
NET CURRENT ASSETS			
		23,341,770	28,743,826
TOTAL ASSETS LESS CURRENT LIABILITIES			
		49,221,701	50,483,942
NON-CURRENT LIABILITIES			
Derivative financial instruments	45	18,945	–
Deferred tax liabilities	30	1,569,772	1,734,943
Borrowings due after one year	39	7,555,160	11,195,744
Lease liabilities	40	349,215	–
Obligations under finance leases	41	–	236,880
Senior notes and bonds	42	19,119,556	17,810,083
Asset-backed securities issued	43	17,065	51,783
		28,629,713	31,029,433
NET ASSETS			
		20,591,988	19,454,509
CAPITAL AND RESERVES			
Share capital	46	498,359	497,945
Reserves		13,237,883	12,465,583
Equity attributable to owners of the Company		13,736,242	12,963,528
Non-controlling interests		6,855,746	6,490,981
		20,591,988	19,454,509

The consolidated financial statements on pages 87 to 262 are approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

PAN JUN
EXECUTIVE DIRECTOR

ZHANG HUIMING
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company								Attributable to non-controlling interests					Total	
	Share capital	Share premium	Special reserve	Share options reserve	Contribution reserve	Statutory reserve and discretionary reserve	Revaluation reserve	Hedging reserve	Accumulated profits	Sub-total	Share options reserve of Colour Life	Share options reserve of Morning Star	Other non-controlling interests		Sub-total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note i)	(note ii)	(note iii)	(note iv)	(note v)	(note vi)				(note iii)	(note iii)			
At 1 January 2018	497,868	1,695,255	1,033,694	17,534	40,600	87,207	6,452	-	9,262,590	12,641,200	242,458	4,855	4,812,251	5,059,564	17,700,764
Profit for the year	-	-	-	-	-	-	-	-	728,339	728,339	-	-	439,845	439,845	1,168,184
Remeasurement of defined benefit obligations	-	-	-	-	-	-	(142)	-	-	(142)	-	-	(96)	(96)	(238)
Deferred taxation effect	-	-	-	-	-	-	36	-	-	36	-	-	24	24	60
Other comprehensive expense for the year	-	-	-	-	-	-	(106)	-	-	(106)	-	-	(72)	(72)	(178)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	(106)	-	728,339	728,233	-	-	439,773	439,773	1,168,006
Issue of shares upon exercise of share options of the Company	77	802	-	(214)	-	-	-	-	-	665	-	-	-	-	665
Issue of shares upon exercise of share options of Colour Life (note vii)	-	-	90,480	-	-	-	-	-	(12,497)	77,983	(33,131)	-	31,018	(2,113)	75,870
Dividend distributed to shareholders of the Company (note 13)	-	(329,217)	-	-	-	-	-	-	-	(329,217)	-	-	-	-	(329,217)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(98,551)	(98,551)	(98,551)
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	519,194	519,194	519,194
Dilution of interests in Colour Life (note viii)	-	-	65,612	-	-	-	-	-	(39,640)	25,972	-	-	326,324	326,324	352,296
Recognition of equity-settled share-based payments (note 54)	-	-	-	-	-	-	-	-	-	-	10,788	773	5,909	17,470	17,470
Acquisition of subsidiaries (note 47)	-	-	-	-	-	-	-	-	-	-	-	-	419,147	419,147	419,147
Acquisition of additional interests in subsidiaries from non-controlling shareholders (note ix)	-	-	(73,842)	-	-	-	-	-	-	(73,842)	-	-	(69,625)	(69,625)	(143,467)
Disposal of subsidiaries (note 48(a))	-	-	-	-	-	-	-	-	-	-	-	-	(70,233)	(70,233)	(70,233)
Deemed disposal of partial interests in subsidiaries without loss of control (note 48(b))	-	-	(185,493)	-	-	-	-	-	78,027	(107,466)	-	-	107,466	107,466	-
Disposal of partial interest in a subsidiary resulting in loss of control (note 48(c))	-	-	-	-	-	-	-	-	-	-	-	-	(151,850)	(151,850)	(151,850)
Shares repurchased under the share award scheme of Colour Life (note 54(d))	-	-	-	-	-	-	-	-	-	-	-	-	(5,585)	(5,585)	(5,585)
Transfer	-	-	-	-	-	57,028	-	-	(57,028)	-	-	-	-	-	-
At 31 December 2018	497,945	1,366,840	930,451	17,320	40,600	144,235	6,346	-	9,959,791	12,963,528	220,115	5,628	6,265,238	6,490,981	19,454,509

	Attributable to owners of the Company										Attributable to non-controlling interests				
	Share capital RMB'000	Share premium RMB'000 (note i)	Special reserve RMB'000 (note ii)	Share options reserve RMB'000 (note iii)	Contribution reserve RMB'000 (note iv)	Statutory reserve and discretionary reserve RMB'000 (note v)	Revaluation reserve RMB'000 (note vi)	Hedging reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Share options reserve of Colour Life RMB'000 (note iii)	Share options reserve of Morning Star RMB'000 (note iii)	Other non-controlling interests RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2019	497,945	1,366,840	930,451	17,320	40,600	144,235	6,346	-	9,959,791	12,963,528	220,115	5,628	6,265,238	6,490,981	19,454,509
Profit for the year	-	-	-	-	-	-	-	-	873,644	873,644	-	-	628,261	628,261	1,501,905
Fair value change on hedging instruments designated as cash flow hedge	-	-	-	-	-	-	-	439	-	439	-	-	-	-	439
Fair value gain on equity instruments designated at FVTOCI	-	-	-	-	-	-	2,834	-	-	2,834	-	-	2,649	2,649	5,483
Deferred taxation effect	-	-	-	-	-	-	(709)	-	-	(709)	-	-	(662)	(662)	(1,371)
Other comprehensive income for the year	-	-	-	-	-	-	2,125	439	-	2,564	-	-	1,987	1,987	4,551
Total comprehensive income for the year	-	-	-	-	-	-	2,125	439	873,644	876,208	-	-	630,248	630,248	1,506,456
Issue of shares upon exercise of share options of the Company	414	4,050	-	(1,056)	-	-	-	-	-	3,408	-	-	-	-	3,408
Issue of shares upon exercise of share options of Colour Life (note vii)	-	-	17	-	-	-	-	-	(4)	13	(6)	-	8	2	15
Dividend distributed to shareholders of the Company (note 13)	-	(195,940)	-	-	-	-	-	-	-	(195,940)	-	-	-	-	(195,940)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(226,830)	(226,830)	(226,830)
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	42,579	42,579	42,579
Recognition of equity-settled share-based payments (note 54)	-	-	-	-	-	-	-	-	-	-	13,567	116	6,567	20,250	20,250
Acquisition of subsidiaries (note 47)	-	-	-	-	-	-	-	-	-	-	-	-	30,825	30,825	30,825
Acquisition of additional interests in subsidiaries from non-controlling shareholders (note ix)	-	-	(9,882)	-	-	-	-	-	-	(9,882)	-	-	(453,813)	(453,813)	(463,695)
Disposal of subsidiaries (note 48(a))	-	-	-	-	-	-	-	-	-	-	-	-	(14,035)	(14,035)	(14,035)
Deemed disposal of partial interests in subsidiaries without loss of control (note 48(b))	-	-	169,610	-	-	-	-	-	(70,703)	98,907	-	-	343,186	343,186	442,093
Shares repurchased under the share award scheme of Colour Life (note 54(d))	-	-	-	-	-	-	-	-	-	-	-	-	(7,647)	(7,647)	(7,647)
Transfer	-	-	-	-	-	91,569	-	-	(91,569)	-	-	-	-	-	-
At 31 December 2019	498,359	1,174,950	1,090,196	16,264	40,600	235,804	8,471	439	10,671,159	13,736,242	233,676	5,744	6,616,326	6,855,746	20,591,988

Notes:

- (i) Pursuant to article 16 of the Company's Article of Association, the Company is permitted to pay out dividend from share premium account.
- (ii) Special reserve arising from the acquisition or disposal of equity interests in subsidiaries without loss of control. It represented the difference between the consideration paid or received and the adjustment to the non-controlling interests in subsidiaries.
- (iii) Share options reserve represented the share-based payment under share option schemes of the Company, Colour Life Services Group Co., Limited ("Colour Life") and Morning Star Group Limited ("Morning Star"), both of which are subsidiaries of the Company.
- (iv) Contribution reserve represented (a) the contribution/distribution to shareholders during the group reorganisation in 2009; (b) the difference between consideration paid and fair value of net assets acquired from related parties; (c) the difference between the consideration received and carrying amount of net assets disposed of to related parties during the Group reorganisation in 2009; and (d) the waiver of shareholder loans in 2009.

For the year ended 31 December 2019

- (v) The statutory reserve and discretionary reserve attributable to subsidiaries in the People's Republic of China (the "PRC") are non-distributable. Transfers to these reserves are determined by the board of directors or the shareholders' meeting of the PRC subsidiaries in accordance with the relevant laws and regulations of the PRC. These reserves can be used to offset accumulated losses, expand the scale of production and business and transfer to capital upon approval from the relevant authorities.
- (vi) Revaluation reserve mainly represented surplus arose from (a) the transfer of owner-occupied property to investment properties at the date of change in use; and (b) the accumulated changes in fair value of the equity instruments designated at FVTOCI.
- (vii) During the year ended 31 December 2019, 3,000 (2018: 14,151,000,000) shares of Colour Life were issued upon the exercise of share options of Colour Life. The aggregated net proceeds received by Colour Life from the holders of share options of Colour Life was RMB15,000 (2018: RMB75,870,000). The exercise of the share options of Colour Life resulted in the dilution of the Group's percentage of equity interests in Colour Life without loss of control. The difference of RMB17,000 (2018: RMB90,480,000) between the aggregated net proceeds received by Colour Life, together with the share-based payments previously recognised in share options reserve of Colour Life, and the change in share of net assets of Colour Life by non-controlling shareholders after taking into account of the relevant attributable accumulated profits of Colour Life, was credited to special reserve.
- (viii) In January 2018, Colour Life, of which shares are listed on the main board of The Stock Exchange of Hong Kong Limited, issued 87,246,000 new ordinary shares to existing shareholders. The net proceeds received by Colour Life was RMB352,296,000. The Group's percentage of equity interest in Colour Life was diluted from 50.39% to 46.53% upon completion of the issuance of shares. Under a concert party agreement entered into between the Company and Splendid Fortune Enterprise Limited ("Splendid Fortune"), a non-controlling shareholder of Colour Life, Splendid Fortune would follow the decision of the Company and the Company had 66.57% effective voting rights over Colour Life upon completion of the issuance of shares, thus the Company is able to exercise control over Colour Life and Colour Life is accounted for as subsidiary of the Company. The difference of RMB65,612,000 between the additional share of net assets of Colour Life by non-controlling shareholders and the net proceeds received by Colour Life on placement of new shares after taking into account of the relevant attributable accumulated profits of Colour Life, was recognised in special reserve.
- (ix) During the year ended 31 December 2019, the Group acquired additional interests in subsidiaries from the non-controlling shareholders at a total consideration of RMB463,695,000 (2018: RMB143,467,000). The difference of RMB9,882,000 (2018: RMB73,842,000) between the consideration paid by the Group and attributable equity interests in the subsidiaries was debited to special reserve.

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before tax	3,782,681	3,036,919
Adjustments for:		
Change in fair value of investment properties	6,165	(136,802)
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	1,110	(82,409)
Change in fair value of financial assets at FVTPL	(385,958)	(939,273)
Release of prepaid lease payments	–	14,374
Release of premium on prepaid lease payments	–	13,671
Amortisation of intangible assets	143,043	139,925
Depreciation of property, plant and equipment	250,500	237,973
Depreciation of right-of-use assets	72,830	–
Share-based payment expenses	20,250	17,470
Loss (gain) on disposal of property, plant and equipment	2,075	(1,660)
Gain on disposal of subsidiaries and associates	(1,056,478)	(1,273,824)
Gain on remeasurement of interests in associates and joint ventures	(989,748)	(384,487)
Impairment losses under expected credit loss model, net of reversal	139,628	82,424
Impairment of goodwill	10,000	–
Revaluation deficit of a property upon transfer to investment properties	24,899	–
Interest income	(121,816)	(140,257)
Finance costs	1,831,761	1,464,674
Loss on repurchase/early redemption of senior notes and bonds and asset-backed securities issued	4,337	975
Loss on modification of asset-backed securities issued	1,380	48,350
Net foreign exchange loss	225,681	770,222
Fair value change on hedging instruments	31,902	–
Share of results of associates	(10,738)	(34,880)
Share of results of joint ventures	29,626	11,140
Operating cash flows before movements in working capital	4,013,130	2,844,525
Increase in deposits paid for acquisitions of land use rights	228,703	(110,600)
Increase in properties for sale	(3,450,580)	(2,209,839)
Decrease (increase) in inventories	427,230	(349,752)
Increase in trade and other receivables	(365,978)	(4,458,370)
Increase in contract costs	(209,088)	(90,414)
Increase in contract assets	(309,941)	(324,330)
(Decrease) increase in trade and other payables	(1,331,316)	3,169,848
Increase in contract liabilities	5,304,530	5,526,208
Increase in provisions	(3,993)	(9,391)
Others	(2,625)	(448)
Cash generated from operations	4,300,072	3,987,437
Income tax paid	(2,002,673)	(619,501)
Interest paid	(3,614,332)	(2,868,521)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(1,316,933)	499,415

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Placement of restricted/pledged bank deposits		(3,823,986)	(3,533,941)
Withdrawal of restricted/pledged bank deposits		3,507,180	3,292,625
Settlement of consideration payables on acquisition of subsidiaries in prior years		(14,000)	(1,724,523)
Settlement of consideration receivables of disposal of subsidiaries		–	9,000
Purchases of property, plant and equipment		(391,991)	(309,641)
Payments for right-of-use assets		(74,148)	–
Proceeds from disposal of property, plant and equipment		13,458	19,023
Additions to investment properties		(795,389)	(199,381)
Proceeds from disposal of investment properties		542,423	542,890
Purchases of financial assets at FVTPL		(29,051)	(87,923)
Redemption of financial assets at FVTPL		1,093,154	234,460
Purchases of equity instruments designated at FVTOCI		(3,360)	(35,188)
Proceeds from disposal of equity instruments designated at FVTOCI		308	–
Acquisition of associates and joint ventures		(20,660)	(102,026)
Capital injection to associates and joint ventures		(100,107)	(73,762)
Return of capital from deregistration of a joint venture		–	410,070
Disposal of associates and joint ventures		793,397	5,000
Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (net of cash and cash equivalents acquired)	47(a)	–	300,941
Acquisition of property operation businesses (net of cash and cash equivalents acquired)	47(b)	6,954	8,344
Deposits paid for potential acquisition of subsidiaries and investments in associates and joint ventures		(718,268)	(63,788)
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	48(a)	109,460	1,025,730
Disposal of partial interests in subsidiaries resulting in loss of control	48(c)	(100,480)	1,237,980
Dividend received from joint ventures and associates		49,152	4,851
Interest received		121,816	140,257
Advance of loan receivables		(140,938)	(189,327)
Repayment of loan receivables		138,685	233,644
Advances to related parties		(1,790,926)	(1,369,945)
Repayment from related parties		509,587	2,295,343
Deposit paid for acquisition of a property project		(1,856)	(43,747)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(1,119,586)	2,026,966

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES			
Net proceeds from the issuance of senior notes and bonds	42	7,443,309	9,505,647
Repayment of senior notes and bonds	42	(6,197,492)	(4,404,253)
Repurchase/early redemption of senior notes and bonds	42	(1,841,030)	(1,852,486)
Net proceeds from the issuance of asset-backed securities	43	–	98,236
Repayment of principal receipts under securitisation arrangements	43	(85,750)	(71,250)
Repurchase of principal receipts under securitisation arrangements	43	(75,032)	–
New borrowings raised		5,300,236	11,210,791
Repayment of borrowings		(7,959,810)	(5,786,656)
Repayment of lease liabilities		(81,358)	–
Repayment of obligations under finance leases		–	(68,178)
Issue of shares upon exercise of share options	46	3,423	76,535
Dividend paid to shareholders of the Company		(195,940)	(329,217)
Dividend paid to non-controlling shareholders of the subsidiaries		(226,830)	(98,551)
Placement of new shares of Colour Life		442,093	352,296
Contributions from non-controlling shareholders of the subsidiaries		42,579	519,194
Acquisition of additional interest in subsidiaries		(463,695)	(143,467)
Repurchase of shares of Colour Life		(7,647)	(5,585)
Advances from related parties		682,639	1,171,859
Repayments to related parties		(194,975)	(843,426)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(3,415,280)	9,331,489
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(5,851,799)	11,857,870
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		26,222,584	14,335,075
Effect of foreign exchange rate changes		8,948	29,639
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		20,379,733	26,222,584

For the year ended 31 December 2019

1. GENERAL

Fantasia Holdings Group Co., Limited (the “Company”) is a limited liability company incorporated in Cayman Islands and its shares are listed on the main board of The Stock Exchange of Hong Kong (“the SEHK”). Its parent and its ultimate parent are Fantasy Pearl International Limited and Ice Apex Limited, respectively, both being limited liability companies incorporated in the British Virgin Islands (the “BVI”). Its ultimate controlling shareholder is Ms. Zeng Jie, Baby, who is a director of the Company. The addresses of the registered office and principal place of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 60.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company and the major subsidiaries.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)
HKFRS 16 “Leases”

The Group has applied HKFRS 16 “Leases” for the first time in the current year. HKFRS 16 superseded HKAS 17 “Leases”, and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease terms ended within 12 months of the date of initial application; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 “Leases” (continued)

As a lessee (continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the Group is 10.31% per annum.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	170,961
Lease liabilities discounted at relevant incremental borrowing rates	107,054
Less: Recognition exemption – short-term leases and other leases with lease term ended within 12 months at the date of initial application	(28,839)
Recognition exemption – low-value assets (excluding short-term lease and other leases with lease terms ended within 12 months at the date of initial application)	(4,978)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	73,237
Add: Obligations under finance leases recognised at 31 December 2018 (note b)	306,044
Lease liabilities as at 1 January 2019	379,281
Analysed as	
Current	79,458
Non-current	299,823
	379,281

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 “Leases” (continued)

As a lessee (continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB’000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		73,237
Reclassification from prepaid lease payments	(a)	137,709
Amounts included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	(b)	507,268
		718,214
By class:		
Leasehold lands		137,709
Office premises		73,237
Transportation equipment		507,268
		718,214

Notes:

- (a) Upfront payments for leasehold lands in the PRC, which includes RMB137,709,000 and RMB154,750,000, held for own use and for currently undetermined future use, respectively, were classified as prepaid lease payments and premium on prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments in relation to the leasehold lands held for own use, amounting to RMB4,525,000 and RMB133,184,000, respectively, were reclassified to right-of-use assets, while the prepaid lease payments and premium on prepaid lease payments in relation to the leasehold lands held for currently undetermined future use, amounting to RMB75,784,000 and RMB78,966,000, respectively, were transferred to investment properties. In the opinion of the directors, the excess of the fair values of the leasehold lands held for currently undetermined future use at 1 January 2019 over their carrying amounts is insignificant to the consolidated financial statements.
- (b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB507,268,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB69,164,000 and RMB236,880,000 to lease liabilities as current and non-current liabilities, respectively at 1 January 2019.
- (c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. However, the adjustments are insignificant at the date of initial application, 1 January 2019.

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)
HKFRS 16 “Leases” (continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group’s consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and should be adjusted to reflect the discounting effect at transition. However, the adjustments to present value is insignificant to be recognised at the date of initial application, 1 January 2019.
- (c) Effective on 1 January 2019, the Group has applied HKFRS 15 “Revenue from Contracts with Customers” to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

The application of HKFRS 16 as a lessor does not have a material impact on the accumulated profits at 1 January 2019.

There is no financial impact, in the application of HKFRS 16 as a lessor, on the Group’s consolidated statement of financial position as at 1 January 2019 and 31 December 2019 and its consolidated statement of profit or loss and other comprehensive income and cash flows for the current year.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)
HKFRS 16 “Leases” (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current Assets				
Property, plant and equipment	(b)	2,596,806	(507,268)	2,089,538
Right-of-use assets		–	718,214	718,214
Investment properties	(a)	10,515,977	154,750	10,670,727
Prepaid lease payments	(a)	206,743	(206,743)	–
Premium on prepaid lease payments	(a)	76,418	(76,418)	–
Current Assets				
Prepaid lease payments	(a)	6,750	(6,750)	–
Premium on prepaid lease payments	(a)	2,548	(2,548)	–
Current Liabilities				
Lease liabilities		–	79,458	79,458
Obligations under finance leases	(b)	69,164	(69,164)	–
Non-current liabilities				
Lease liabilities		–	299,823	299,823
Obligations under finance leases	(b)	236,880	(236,880)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the* “Amendments to References to the Conceptual Framework in HKFRS Standards”, will be effective for annual periods beginning on or after 1 January 2020.

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the Group’s consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 “Definition of a Business”

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The Group intends to elect the optional concentration test for acquisition of subsidiaries. Such election may result in certain acquisitions being accounted for as asset acquisitions upon the application of the amendments.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKFRS 10 and HKAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments to HKFRS 10 “Consolidated Financial Statements” and HKAS 28 “Investments in Associates and Joint Ventures” deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

In the opinion of the directors of the Company, the application of the amendment may result in changes in measurement of the retained interests in former subsidiaries relating to the disposal of partial interests in subsidiaries resulting in loss of control. If it does not contain a business in the transaction, no gains or losses from the remeasurement of the retained interests is recognised as indicated above. During the year ended 31 December 2019, the Group recognised remeasurement gain on retained interests in former subsidiaries amounting to RMB989,748,000 relating to the disposal of partial interests in subsidiaries resulting in loss of control and there would have been no such gain under these amendments.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform”

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 “Financial Instruments” and HKAS 39 “Financial Instruments: Recognition and Measurement”, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities’ hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 “Financial Instruments: Disclosures” regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value-in-use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets and financial liabilities at the respective fair value, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for the goodwill arising on the acquisition of associates and joint ventures is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value-in-use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest in a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint ventures and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal or partial disposal of the relevant associate or joint venture.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

For property management services, value added services, hotel accommodation services and travel agency services, the progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Input method

For construction of properties and engineering services, the progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (mainly sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises and commercial properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability; and
- any lease payments made at or before the commencement date.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Right-of-use assets (continued)

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment properties”.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments).

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as lessee (prior to 1 January 2019)

Prepaid lease payments

The prepaid lease payments represent upfront payments for land use rights for the purpose of development of properties for sale or for use in the production or supply of goods or services, and are initially recognised at cost and released to profit or loss over the remaining lease term on a straight-line basis. The prepaid lease payments in respect of development of projects for sale whereby the construction work is expected to complete beyond normal operating cycle are classified under non-current assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as lessee (prior to 1 January 2019) (continued)

Premium on prepaid lease payments

The premium on prepaid lease payments represent the excess of the consideration paid over the carrying amount of the prepaid lease payments in respect of leasehold lands in the PRC acquired through acquisition of assets and liabilities through acquisition of subsidiaries and released to profit or loss over the remaining lease term on a straight-line basis. The premium on prepaid lease payments in respect of projects whereby the construction work is expected to complete beyond normal operating cycle are classified under non-current assets.

The Group as lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

Borrowing costs

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from services cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Share-based Payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at fair value of equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on assessment of all the relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 "Income Taxes" (i.e. based on the expected manner as to how the properties will be recovered).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Ownership interests in leasehold land and building (continued)

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to accumulated profits.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair values, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs and interest expense incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating units) for which the estimates of future cash flows have not been adjusted.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value-in-use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or the group of cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or the group of cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties for sale

Properties for sale which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of HKFRS 16, properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development for sale are transferred to completed properties for sale upon completion.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Warranties

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of fuel pumps are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair values of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

A financial asset is held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “other income” line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, amounts due from related parties, restricted/pledged bank deposits and bank balances) and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(i) Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected loss is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on appropriate basis, taken into the following considerations:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of counterparties; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables, lease receivables, contract assets, other receivables (including payments on behalf of residents and loan receivables), amounts due from related parties and financial guarantee contracts where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amounts due to related parties, borrowings, senior notes and bonds and asset-backed securities issued, are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Derecognition/substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Senior notes and bonds and asset-backed securities issued

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.

Bonds and asset-backed securities issued by the subsidiaries of the Company that contain both liability and put option (which is closely related to the host contracts) are not separated into host contract and embedded derivatives on initial recognition. At the date of issue, the bonds and asset-backed securities issued are recognised at fair value.

In subsequent periods, the liability component of the senior notes, bonds and asset-backed securities issued are carried at amortised cost using the effective interest method. The early redemption option of senior notes is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that related to the issue of the senior notes and bonds and asset-backed securities issued are included in the carrying amount of the senior notes and bonds and asset-backed securities issued and amortised over the period of the senior notes and bonds and asset-backed securities issued using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying accounting policies (continued)

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As at 31 December 2019, the carrying amount of deferred taxation on investment properties is RMB1,398,784,000 (2018: RMB1,450,400,000).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of net realisable value of properties for sale

Properties for sale are stated at the lower of cost and net realisable value with an aggregate carrying amount of RMB35,473,562,000 (2018: RMB34,882,404,000). Cost, including the cost of land, development expenditures, borrowing costs capitalised in accordance with the Group's accounting policy and other attributable expenses, are allocated to each unit in each phase based on saleable gross floor area, using the weighted average method. The net realisable value is the estimated selling price (based on prevailing real estate market conditions in the PRC) less estimated selling expenses and estimated cost to completion (if any), which are determined based on best available information. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, there may be written down on the properties under development for sale and completed properties for sale.

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair value measurements and valuation processes

The investment properties of the Group amounting to RMB11,924,404,000 (2018: RMB10,515,977,000) are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation team, which is headed up by the chief financial officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an investment property, the Group uses market-observable data to the extent it is available. The Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the valuation team's findings to the board of directors of the Company periodically to explain the cause of fluctuations in the fair value of the investment properties. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of investment properties. Note 17 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties of the Group.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units (or group of cash-generating units) to which goodwill has been allocated which is the higher of the value-in-use and fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) based on five-year financial budgets approved by the management of the Group and a suitable discount rate in order to calculate the present value. The Group engages an independent valuer to assist the estimation. The valuation team of the Group works closely with the independent valuer to establish the appropriate estimation model and inputs to the model. Key estimates involved in the preparation of cash flow projections for the period covered by the approved financial budgets include the growth rates, discount rates and expected future cash inflows/outflows including revenue, gross profit and operating expenses estimated. The cash flows beyond the five-year period are extrapolated using zero growth rate. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of expected future cash inflows due to unfavourableness, a material impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill net of accumulated impairment loss of RMB91,574,000 (2018: RMB81,574,000) was amounted to RMB2,398,921,000 (2018: RMB2,339,723,000).

Estimated impairment of intangible assets

Intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of the cash-generating units to which intangible assets have been allocated exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. The value-in-use calculation requires the Group to estimate the future cash flows from the asset of cash-generating unit and a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the carrying amount of intangible assets net of accumulated impairment loss was RMB1,129,725,000 (2018: RMB1,188,896,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair value measurement of a debt instrument included in financial assets at FVTPL

A debt instrument included the Group's financial assets at FVTPL amounting to RMB1,420,000,000 as at 31 December 2019 (2018: RMB2,038,000,000) are measured at fair values with fair values being determined based on unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See notes 20 and 51(c) for further disclosures.

Provision of ECL for contract assets and payments on behalf of residents included in trade and other receivables

The Group uses provision matrix to calculate ECL for the contract assets and payments on behalf of residents included in trade and other receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As at 31 December 2019, the gross carrying amounts of contract assets and payments on behalf of residents were RMB762,881,000 and RMB1,072,620,000 (2018: RMB452,940,000 and RMB910,966,000), respectively, and the balances of allowance for credit losses were RMB3,928,000 and RMB152,026,000 (2018: RMB3,350,000 and RMB122,911,000), respectively.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's contract assets and payments on behalf of residents are disclosed in note 51.

Provision of ECL for trade receivables (including lease receivables)

The Group uses provision matrix to calculate ECL for the trade receivables except that trade receivables with significant balances and credit impaired are assessed for ECL individually. The provision rates are based on internal credit ratings as groupings of various debtors by their aging, which are considered of similar loss pattern. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As at 31 December 2019, the gross carrying amount of trade receivables was RMB2,503,553,000 (2018: RMB2,020,002,000) and the balance of allowance for credit losses was RMB83,767,000 (2018: RMB62,875,000).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 51.

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Land appreciation tax (“LAT”)

The Group is subject to LAT in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Group have not finalised their LAT calculations and payments with any local tax authorities in the PRC. Accordingly, significant estimate is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the LAT based on the management’s best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with the local tax authorities.

As explained in above, the carrying amounts of investment properties are presumed to be recovered entirely through sale, as such deferred tax charge on the fair value change of investment properties has taken into account the LAT payable upon the disposal of these properties.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit or taxable temporary difference will be available against which the tax losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits or taxable temporary difference together with future tax planning strategies. As at 31 December 2019, the carrying amount of deferred tax assets recognised for unused tax losses was RMB154,938,000 (2018: RMB152,551,000).

Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties for sale and charged to the consolidated statement of profit or loss and other comprehensive income upon the recognition of the sales of the properties. Before the final settlement of the development costs and other costs relating to the sales of the properties, these costs are accrued by the Group based on the management’s best estimate. During the development stage, the Group typically divides the development projects into phases. Costs that are common to different phases are allocated to individual phase based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregation of revenue from contracts with customers For the year ended 31 December 2019

Segments	Property development RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Types of goods and services						
<u>Property development</u>						
Sales of completed properties	12,866,088	–	–	–	–	12,866,088
Construction of properties	360,258	–	–	–	–	360,258
<u>Property agency services</u>						
Provision of property agency services	–	94,332	–	–	–	94,332
<u>Property operation services</u>						
Provision of property management services	–	–	4,051,304	–	–	4,051,304
Provision of value-added services	–	–	449,334	–	–	449,334
Provision of engineering services	–	–	164,932	–	–	164,932
<u>Hotel operations</u>						
Provision of hotel accommodation services	–	–	–	123,478	–	123,478
<u>Others</u>						
Manufacturing and sales of fuel pumps	–	–	–	–	433,348	433,348
Provision of travel agency services	–	–	–	–	338,725	338,725
	13,226,346	94,332	4,665,570	123,478	772,073	18,881,799
Timing of revenue recognition						
A point in time	12,866,088	94,332	–	–	433,348	13,393,768
Over time	360,258	–	4,665,570	123,478	338,725	5,488,031
	13,226,346	94,332	4,665,570	123,478	772,073	18,881,799

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Segments	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Revenue disclosed in segment information							
External customers	13,226,346	199,778	94,332	4,665,570	123,478	772,073	19,081,577
Inter-segment	8,938	4,727	–	89,006	–	–	102,671
	13,235,284	204,505	94,332	4,754,576	123,478	772,073	19,184,248
Elimination	(8,938)	(4,727)	–	(89,006)	–	–	(102,671)
Leases	–	(199,778)	–	–	–	–	(199,778)
Revenue from contracts with customers	13,226,346	–	94,332	4,665,570	123,478	772,073	18,881,799

For the year ended 31 December 2019

5. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(i) Disaggregation of revenue from contracts with customers (continued)
For the year ended 31 December 2018

Segments	Property development RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Types of goods and services						
<u>Property development</u>						
Sales of completed properties	7,695,367	-	-	-	-	7,695,367
Construction of properties	859,141	-	-	-	-	859,141
<u>Property agency services</u>						
Provision of property agency services	-	129,666	-	-	-	129,666
<u>Property operation services</u>						
Provision of property management services	-	-	3,601,065	-	-	3,601,065
Provision of value-added services	-	-	340,311	-	-	340,311
Provision of engineering services	-	-	216,190	-	-	216,190
<u>Hotel operations</u>						
Provision of hotel accommodation services	-	-	-	135,700	-	135,700
<u>Others</u>						
Manufacturing and sales of fuel pumps	-	-	-	-	414,400	414,400
Provision of travel agency services	-	-	-	-	341,784	341,784
	8,554,508	129,666	4,157,566	135,700	756,184	13,733,624
Timing of revenue recognition						
A point in time	7,695,367	129,666	-	-	414,400	8,239,433
Over time	859,141	-	4,157,566	135,700	341,784	5,494,191
	8,554,508	129,666	4,157,566	135,700	756,184	13,733,624

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Segments	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Revenue disclosed in segment information							
External customers	8,554,508	252,509	129,666	4,157,566	135,700	756,184	13,986,133
Inter-segment	13,906	2,727	-	118,078	-	-	134,711
	8,568,414	255,236	129,666	4,275,644	135,700	756,184	14,120,844
Elimination	(13,906)	(2,727)	-	(118,078)	-	-	(134,711)
Leases	-	(252,509)	-	-	-	-	(252,509)
Revenue from contracts with customers	8,554,508	-	129,666	4,157,566	135,700	756,184	13,733,624

5. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(ii) Performance obligations for contracts with customers

The Group recognises revenue from goods and services from the following major sources:

- Sales of completed properties;
- Construction of properties;
- Provision of property agency services;
- Provision of property management services;
- Provision of value-added services;
- Provision of engineering services;
- Provision of hotel accommodation services;
- Provision of travel agency services; and
- Manufacturing and sales of fuel pumps.

For sales of completed properties, the Group presold the properties under construction and receives deposits from customers. Revenue is recognised at a point in time when the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

For construction of properties, the Group constructs the properties for customers. The construction revenue is recognised as performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for the construction based on the stage of completion of the contract using input method.

For provision of property agency services, agency commission is recognised at a point in time when a buyer and seller execute a legally binding sale agreement and performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

Property management services mainly include property management services under lump sum basis, commission basis and at pre-delivery stage. For property management services, the Group bills a fixed rate for services provided on a monthly/regular basis and recognises as revenue in the amount to which the Group has a right to invoice and that corresponds directly with the value of performance completed.

For property management services income from properties managed under lump sum basis, where the Group acts as principal and is primary responsible for providing the property management services to the property owners. As the property owners simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs, the Group recognises the fee received or receivable from property owners as its revenue over time and all related property management costs as its cost of services.

For the year ended 31 December 2019

5. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(ii) Performance obligations for contracts with customers (continued)

For property management services income from properties managed under commission basis, the Group recognises the commission for providing the property management services to the property management offices of residential communities, which is calculated by certain percentage of the total property management fee charged to the property owners. As the property management offices of residential communities simultaneously receives and consumes the benefit provided by the Group's performance as the Group renders property management services, the Group recognises the fee received or receivables from property management offices of residential communities as its revenue for arranging and monitoring the services as provided by other suppliers to the property management offices of residential communities over time.

For property management services income at pre-delivery stage, where the Group acts as principal and is primary responsible for providing the property management services for the property developers. As the property developers simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs, the Group recognises the fee received or receivable from property developers as its revenue over time and all related property management costs as its cost of services.

For consultancy services income for residential communities under consultancy service arrangement, where the Group acts as principal and is primary responsible for providing the consultancy services for the property management companies. As the property management companies simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs. The Group agrees the fee for services with the property management companies upfront and recognises the fee received or receivable from the property management companies, as its revenue over time and all related property management costs as its cost of services.

For value-added services, the Group agrees the fixed rate for services with the customers upfront and issues the bill on a monthly/regular basis to the customers which varies based on the actual level of service completed in that month/period. As the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, the revenue is recognised over time when the performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

For engineering services, the Group's performance creates or enhances an asset or work in progress that the customers control as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of satisfaction of the performance obligation.

For provision of hotel accommodation services, the Group agrees the fixed rate for services with the customers upfront. As the customer simultaneously receives and consumes the benefits provided by the Group's performance, the revenue is recognised over time when the performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

For provision of travel agency services, the Group agrees the fixed fee income for tour services provided by the Group with the customers upfront. As the customer simultaneously receives and consumes the benefits provided by the Group's performance, thus the revenue is recognised over time when the performance obligations are satisfied.

For manufacturing and sales of fuel pumps, revenue is recognised at a point in time when the customer obtains the control of the fuel pumps, the Group has present right to payment and the collection of the consideration is probable.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining unsatisfied performance obligations as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	Sales of completed properties RMB'000	Construction of properties RMB'000
Within one year	9,572,600	159,039
More than one year	10,195,974	275,883

The transaction price allocated to the remaining unsatisfied performance obligations as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Sales of completed properties RMB'000	Construction of properties RMB'000
Within one year	8,521,560	566,627
More than one year	10,331,103	–

The performance obligation of property agency services, property management services, value-added services, engineering services, hotel accommodation services, travel agency services and manufacturing and sales of fuel pumps are parts of the contracts that have an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts in relation to these services is not disclosed.

(iv) Leases

For operating leases:	2019 RMB'000
Total revenue arising from leases	
Operating lease income with fixed lease payments	199,778

For operating leases:	2018 RMB'000
Total revenue arising from leases	
Operating lease income – properties	252,509

For the year ended 31 December 2019

6. SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of the different products and services supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the directors of the Company, the chief operating decision makers, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by different type of products sold and services rendered.

The Group has six reportable and operating segments, comprising of property development, property investment, property agency services, property operation services, hotel operation and others (including travel agency services and manufacturing and sale of fuel pumps).

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of interest income, change in fair value of financial assets at FVTPL, gain on remeasurement of interests in joint ventures, net exchange loss, fair value change on hedging instruments, loss on repurchase, early redemption and modification of senior notes, bonds and asset-backed securities issued, share-based payment expenses, finance costs, share of results of associates and joint ventures, gain on disposal of subsidiaries and associates, central administration costs and directors' salaries. This is a measure reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance.

Inter-segment revenues are charged at prevailing market rate.

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision makers also review the segment assets attributable to each operating segment, which comprises assets other than interests in associates and joint ventures, equity instruments designated at FVTOCI, financial assets at FVTPL, derivative financial instruments, amounts due from related parties, restricted/pledged bank deposits, bank balances and cash and other corporate assets.

6. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue, results and other material items by operating and reportable segment under review:

For the year ended 31 December 2019

	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
External revenues	13,226,346	199,778	94,332	4,665,570	123,478	772,073	19,081,577
Inter-segment revenues	8,938	4,727	–	89,006	–	–	102,671
Segment results	2,328,541	205,943	78,644	959,458	(30,591)	(28,423)	3,513,572
Segment assets	42,397,923	11,014,172	26,898	7,693,802	1,128,260	3,014,457	65,275,512
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets (note)	419,098	1,104,137	2,464	311,001	2,932	28,399	1,868,031
Loss from change in fair value of investment properties	–	6,165	–	–	–	–	6,165
Recognition of loss from change in fair value of completed properties for sale upon transfer to investment properties	1,110	–	–	–	–	–	1,110
Revaluation deficit of a property upon transfer to investment properties	–	–	–	–	24,899	–	24,899
Impairment of goodwill	–	–	–	–	–	10,000	10,000
Amortisation of intangible assets	–	–	–	139,546	–	3,497	143,043
Depreciation of property, plant and equipment	54,392	4,424	4,928	71,262	35,682	74,983	245,671
Depreciation of right-of-use assets	60,982	–	–	6,392	475	–	67,849
Loss on disposal of property, plant and equipment	1,623	–	–	452	–	–	2,075
Allowance for credit losses, net of reversal	43,494	–	–	96,134	–	–	139,628

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6. SEGMENT INFORMATION (continued)

For the year ended 31 December 2018

	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
External revenues	8,554,508	252,509	129,666	4,157,566	135,700	756,184	13,986,133
Inter-segment revenues	13,906	2,727	–	118,078	–	–	134,711
Segment results	1,439,402	351,727	83,540	901,975	(5,035)	(99,159)	2,672,450
Segment assets	37,865,715	10,652,307	18,808	7,565,411	1,100,918	2,741,429	59,944,588
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets (note)	362,248	390,004	8,223	155,519	2,325	177,995	1,096,314
Gain on fair value of investment properties	–	136,802	–	–	–	–	136,802
Recognition of gain on change in fair value of completed properties for sale upon							
transfer to investment properties	82,409	–	–	–	–	–	82,409
Release of prepaid lease payments	13,868	–	–	–	506	–	14,374
Release of premium on prepaid lease payments	13,671	–	–	–	–	–	13,671
Amortisation of intangible assets	–	–	–	136,428	–	3,497	139,925
Depreciation of property, plant and equipment	65,287	4,245	3,423	52,908	36,982	69,446	232,291
Gain on disposal of property, plant and equipment	1,473	–	–	187	–	–	1,660
Allowance for credit losses, net of reversal	28,981	–	–	53,443	–	–	82,424

Note: Additions to non-current assets exclude interests in associates and joint ventures, equity instruments designated at FVTOCI, financial assets at FVTPL, deposits paid for acquisition of land use rights, deposits paid for potential acquisition of subsidiaries and investments in associates and joint ventures, deposit paid for acquisition of a property project, other receivables (non-current) and deferred tax assets.

6. SEGMENT INFORMATION (continued)

Reconciliation:

	2019 RMB'000	2018 RMB'000
Revenue:		
Total revenue for operating and reportable segments	19,184,248	14,120,844
Elimination of inter-segment revenues	(102,671)	(134,711)
Group's total revenue	19,081,577	13,986,133
Total segment results		
Elimination of inter-segment results	(45,703)	(32,872)
Unallocated amounts:		
Interest income	121,816	140,257
Net exchange loss	(225,681)	(740,583)
Fair value change on hedging instruments	(31,902)	–
Change in fair value of financial assets at FVTPL	385,958	939,273
Share-based payment expenses	(20,250)	(17,470)
Finance costs	(1,831,761)	(1,464,674)
Share of results of associates and joint ventures	(18,888)	23,740
Gain on disposal of subsidiaries and associates	1,056,478	1,273,824
Gain on remeasurement of interests in joint ventures	989,748	384,487
Loss on repurchase/early redemption of senior notes and bonds	(4,337)	(975)
Loss on modification of senior notes and bonds and asset-backed securities issued	(1,380)	(48,350)
Other unallocated expenses	(104,989)	(92,188)
Profit before tax	3,782,681	3,036,919
	2019 RMB'000	2018 RMB'000
Assets:		
Total assets for operating and reportable segments	65,275,512	59,944,588
Unallocated assets:		
Interests in associates	757,497	1,346,586
Interests in joint ventures	2,686,998	1,426,958
Equity instruments designated at FVTOCI	60,086	51,551
Financial assets at FVTPL	1,449,051	2,127,196
Amounts due from related parties	1,790,649	517,916
Restricted/pledged bank deposits	2,664,674	2,347,868
Bank balances and cash	20,379,733	26,222,584
Other unallocated corporate assets	535,759	460,824
Group's total assets	95,599,959	94,446,071

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6. SEGMENT INFORMATION (continued)

The Group's revenue from external customers is derived solely from its operations in the PRC, and non-current assets of the Group are mainly located in the PRC and the United States of America (the "USA").

During the years ended 31 December 2019 and 2018, there was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

As the Group's segment liabilities are not regularly reviewed by the chief operating decision makers, the liabilities for each operating segment is therefore not presented.

	2019 RMB'000	2018 RMB'000
<i>Additions to non-current assets</i>		
Reportable segment total	1,868,031	1,096,314
Unallocated amount	4,982	764
Group's total	1,873,013	1,097,078
<i>Depreciation of property, plant and equipment</i>		
Reportable segment total	245,671	232,291
Unallocated amount	4,829	5,682
Group's total	250,500	237,973
<i>Depreciation of right-of-use assets</i>		
Reportable segment total	67,849	–
Unallocated amount	4,981	–
Group's total	72,830	–

7. OTHER INCOME, GAINS AND LOSSES

	Notes	2019 RMB'000	2018 RMB'000
<u>Other income</u>			
Interest income		121,816	140,257
Partial exemption of PRC value-added tax		16,740	–
Unconditional government grants		1,388	9,392
		139,944	149,649
<u>Other gains and losses</u>			
Change in fair value of financial assets at FVTPL		385,958	939,273
Gain on remeasurement of interests in joint ventures	48(c)	989,748	384,487
Gain on disposal of an associate	18(c)	111,575	–
Net exchange loss		(225,681)	(740,583)
Fair value change on hedging instruments		(31,902)	–
Loss on repurchase/early redemption of senior notes and bonds and asset-backed securities issued		(4,337)	(975)
Loss on modification of senior notes and bonds and asset-backed securities issued		(1,380)	(48,350)
(Loss) gain on disposal of plant, property and equipment		(2,075)	1,660
Revaluation deficit of a property upon transfer to investment properties		(24,899)	–
Impairment of goodwill	22	(10,000)	–
Others		2,396	26,361
		1,189,403	561,873

8. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 RMB'000	2018 RMB'000
Impairment loss recognised on		
– trade and other receivables	(130,444)	(82,057)
– amount due from a joint venture	(8,606)	–
– contract assets	(578)	(367)
	(139,628)	(82,424)

Details of impairment assessment are set out in note 51.

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9. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on:		
– bank and other borrowings	1,294,709	1,208,428
– senior notes and bonds	2,382,217	1,942,299
– lease liabilities	35,745	–
– obligation under finance leases	–	15,631
– asset-backed securities issued	20,861	22,083
Imputed interest expenses arising from deposits received from sales of properties	798,093	627,300
Other finance costs	–	13,442
	4,531,625	3,829,183
Less: Amount capitalised in properties under development for sale	(2,630,912)	(2,303,626)
Amount capitalised in investment properties under construction	(65,570)	(59,855)
Amount capitalised in construction in progress	(3,382)	(1,028)
	1,831,761	1,464,674

During the year ended 31 December 2019, certain amounts of finance costs capitalised arose from the general borrowing pool and were calculated by applying the capitalisation rate of 10.1% (2018: 9.9%) per annum to expenditures on qualifying assets.

10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax in the PRC		
EIT		
– Current year	1,718,780	893,103
– Over provision in respect of prior year	(28,886)	–
	1,689,894	893,103
LAT	923,335	803,119
	2,613,229	1,696,222
Deferred tax (note 30)		
(Credit) charge to profit and loss	(332,453)	172,513
	2,280,776	1,868,735

10. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the income of the Group neither arises in nor is derived from Hong Kong.

The Group's EIT is calculated based on the applicable tax rate on assessable profits, if applicable.

LAT 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 cost of land use rights and all property development expenditures.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Notes	2019 RMB'000	2018 RMB'000
Profit before tax		3,782,681	3,036,919
Tax at PRC EIT rate of 25% (2018: 25%)	(a)	945,670	759,230
Tax effect of share of results of associates and joint ventures		4,722	(5,935)
Tax effect of income not taxable for tax purpose		(250,929)	(227,411)
Tax effect of expenses not deductible for tax purpose	(b)	606,595	575,069
Tax effect of tax losses not recognised		366,477	240,485
Utilisation of tax losses previously not recognised		(35,481)	(28,352)
LAT		923,335	803,119
Tax effect of LAT		(230,834)	(200,780)
Tax effect of tax rate differential of certain subsidiaries with preferential tax rate	(c)	(54,404)	(49,584)
Others		5,625	2,894
Income tax expense for the year		2,280,776	1,868,735

Notes:

- (a) Majority of the assessable profits of the Group were derived from subsidiaries situated in the PRC and the applicable EIT rate of those subsidiaries is 25%.
- (b) The amounts for the years ended 31 December 2019 and 2018 mainly represented the tax effect of expenses incurred by offshore companies, including the interest on senior notes, share-based payment expenses, exchange loss, loss on repurchase, early redemption and modification of senior notes and bonds and asset-backed securities issued, change in fair value of derivative financial instruments, impairment of goodwill and professional fees.
- (c) The different tax rates mainly come from certain PRC companies, which are regarded as advanced technology enterprise or engaged in the encouraged industries by local governments, are entitled to the PRC income tax at a preferential rate of 15% for both the years ended 31 December 2019 and 2018.

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11. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	28,101	17,656
Other staff's salaries and allowances	2,048,785	1,527,422
Defined benefit scheme costs	–	60
Retirement benefit scheme contributions	293,725	249,811
Share-based payments	19,871	17,218
Total staff costs	2,390,482	1,812,167
Less: Amount capitalised in properties under development for sale	(294,909)	(287,202)
	2,095,573	1,524,965
Auditor's remuneration	5,600	5,400
Release of prepaid lease payments	–	14,374
Release of premium on prepaid lease payments	–	13,671
Depreciation of property, plant and equipment	250,500	237,973
Depreciation of right-of-use assets	72,830	–
Amortisation of intangible assets (included in cost of sales and services)	143,043	139,925
Loss (gain) on disposal of property, plant and equipment	2,075	(1,660)
Cost of properties sold recognised as an expense	9,565,097	5,960,570
Minimum lease payments paid under operating lease rentals in respect of land and buildings	–	40,381

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATIONS

The emoluments paid or payable to the directors and the chief executive disclosed pursuant to the applicable Listing Rules and CO were as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share- based payments RMB'000	Total RMB'000
For the year ended 31 December 2019						
<i>Executive directors:</i>						
Mr. Pan Jun (潘軍) (note i)	–	4,259	1,628	75	379	6,341
Ms. Zeng Jie, Baby (曾寶寶)	–	4,259	1,628	75	–	5,962
Mr. Deng Bo (鄧波) (note ii)	–	1,668	615	75	–	2,358
Mr. Ke Kasheng (柯卡生) (note iii)	–	3,150	1,050	–	–	4,200
Mr. Zhang Huiming (張惠明) (note iii)	–	3,239	692	69	–	4,000
Mr. Chen Xinyu (陳新禹) (note iii)	–	2,544	1,045	11	–	3,600
<i>Non-executive directors:</i>						
Mr. Li Dongsheng (李東生)	240	–	–	–	–	240
Mr. Liao Qian (廖騫)	240	–	–	–	–	240
Mr. Lam Kam Tong (林錦堂) (note iv)	100	–	–	–	–	100
<i>Independent non-executive directors:</i>						
Mr. He Min (何敏)	240	–	–	–	–	240
Mr. Huang Ming (黃明) (note ii)	100	–	–	–	–	100
Mr. Liao Jianwen (廖建文)	240	–	–	–	–	240
Ms. Wong Pui Sze (王沛詩)	240	–	–	–	–	240
Mr. Guo Shaomu (郭少牧)	240	–	–	–	–	240
	1,640	19,119	6,658	305	379	28,101
For the year ended 31 December 2018						
<i>Executive directors:</i>						
Mr. Pan Jun (潘軍) (note i)	–	4,913	900	72	188	6,073
Ms. Zeng Jie, Baby (曾寶寶)	–	4,913	900	72	–	5,885
Mr. Deng Bo (鄧波)	–	2,072	402	72	–	2,546
Mr. Lam Kam Tong (林錦堂) (note iv)	–	1,300	–	–	–	1,300
<i>Non-executive directors:</i>						
Mr. Li Dongsheng (李東生)	240	–	–	–	–	240
Mr. Liao Qian (廖騫)	240	–	–	–	–	240
Mr. Lam Kam Tong (林錦堂) (note iv)	108	–	–	–	–	108
<i>Independent non-executive directors:</i>						
Mr. He Min (何敏)	240	–	–	–	–	240
Mr. Huang Ming (黃明)	240	–	–	–	–	240
Mr. Liao Jianwen (廖建文)	240	–	–	–	64	304
Ms. Wong Pui Sze (王沛詩)	240	–	–	–	–	240
Mr. Guo Shaomu (郭少牧)	240	–	–	–	–	240
	1,788	13,198	2,202	216	252	17,656

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12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATIONS (continued)

Notes:

- (i) Mr. Pan Jun is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.
- (ii) Mr. Deng Bo and Mr. Huang Ming resigned on 30 May 2019.
- (iii) Mr. Ke Kasheng, Mr. Zhang Huiming and Mr. Chen Xinyu were appointed as executive directors on 30 May 2019.
- (iv) Mr. Lam Kam Tong resigned as the executive director and was re-designated as a non-executive director of the Company on 20 July 2018. Mr. Lam Kam Tong resigned as a non-executive director of the Company on 30 May 2019.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were paid for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

The discretionary bonus is determined by the Board of Directors based on the Group's performance for each financial year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Five highest paid employees

The five individuals with the highest emoluments in the Group included two (2018: two) directors for the year ended 31 December 2019. Details of their emoluments are set out above. The emoluments of the remaining three (2018: three) of the five highest paid individuals is as follows:

	2019 RMB'000	2018 RMB'000
Salaries and allowances	7,218	9,721
Discretionary bonus	8,084	1,985
Retirement benefit scheme contributions	210	214
	15,512	11,920

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATIONS (continued)

Five highest paid employees (continued)

Their emoluments were within the following band:

	2019	2018
	No. of employees	No. of employees
HKD4,000,001 to HKD5,000,000	1	3
HKD5,000,001 to HKD5,500,000	1	–
HKD5,500,001 to HKD6,000,000	1	–

During the years ended 31 December 2019 and 2018, no remuneration was paid by the Group to any of the directors, chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and chief executive waived any remuneration for both the years ended 31 December 2019 and 2018.

13. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2018 final dividend HK4.00 cents, equivalent to RMB3.4 cents		
(2018: final dividend in respect of the year ended 31 December 2017		
of HK7.00 cents, equivalent to RMB5.8 cents) per share	195,940	329,217

Subsequent to the end of the reporting period, a final dividend in respect of year ended 31 December 2019 of RMB5.0 cents (2018: final dividend in respect of year ended 31 December 2018 of HK4.00 cents, equivalent to RMB3.4 cents) per share amounting to approximately RMB288,384,000 has been proposed by the directors for approval by the shareholders in the annual general meeting.

For the year ended 31 December 2019

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2019	2018
Earnings (RMB'000)		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	873,644	728,339
Effect of dilutive potential ordinary shares:		
Share options – Colour Life	–	(93)
Earnings for the purpose of diluted earnings per share	873,644	728,246
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,765,629,670	5,762,746,463
Effect of dilutive potential ordinary shares:		
Share options	29,373,158	27,204,965
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,795,002,828	5,789,951,428

For the years ended 31 December 2019 and 2018, the computation of diluted earnings per share does not assume the exercise of the Morning Star's share options since Morning Star incurred losses for both years and their exercise would result in an increase in earnings per share.

Those share options granted by Colour Life have no impact on the computation of diluted earnings per share for the year ended 31 December 2019 where the exercise price of the share options was higher than the average market price of the Colour Life's share.

15. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings RMB'000	Leasehold land and buildings RMB'000	Renovations and leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2018	1,061,746	445,868	204,673	386,725	598,697	480,929	3,178,638
Transfer upon completion	-	39,609	-	44,980	-	(84,589)	-
Additions	-	20,603	46,541	85,090	70,140	131,973	354,347
Acquisition of subsidiaries (note 47)	-	100,020	-	2,590	1,430	193,760	297,800
Transfer to investment properties	-	(19,441)	-	-	-	-	(19,441)
Disposal of subsidiaries (note 48 (a) and (c))	(82,542)	(255,174)	-	(7,214)	(5,414)	(103,270)	(453,614)
Disposals	-	(50,121)	(5,174)	(10,737)	(2,742)	-	(68,774)
At 31 December 2018	979,204	281,364	246,040	501,434	662,111	618,803	3,288,956
Adjustments upon application of HKFRS 16 (note 2)	-	-	-	-	(624,518)	-	(624,518)
At 1 January 2019 (adjusted)	979,204	281,364	246,040	501,434	37,593	618,803	2,664,438
Transfer upon completion	-	456,475	-	78,488	-	(534,963)	-
Additions	-	46,780	88,792	86,226	4,202	169,373	395,373
Acquisition of subsidiaries (note 47)	-	-	-	398	-	-	398
Transfer to investment properties	(66,813)	-	-	-	-	-	(66,813)
Disposal of subsidiaries (note 48 (a) and (c))	-	-	(1,219)	(6,821)	-	-	(8,040)
Disposals	-	-	-	(23,172)	(1,554)	-	(24,726)
At 31 December 2019	912,391	784,619	333,613	636,553	40,241	253,213	2,960,630
DEPRECIATION							
At 1 January 2018	119,469	122,233	112,017	123,782	90,053	-	567,554
Provided for the year	33,134	34,681	46,300	74,105	49,753	-	237,973
Transfer to investment properties	-	(1,031)	-	-	-	-	(1,031)
Eliminated on disposal of subsidiaries (note 48 (a) and (c))	(7,840)	(41,780)	-	(6,916)	(4,399)	-	(60,935)
Eliminated on disposals	-	(39,884)	(3,756)	(5,370)	(2,401)	-	(51,411)
At 31 December 2018	144,763	74,219	154,561	185,601	133,006	-	692,150
Adjustments upon application of HKFRS 16 (note 2)	-	-	-	-	(117,250)	-	(117,250)
At 1 January 2019 (adjusted)	144,763	74,219	154,561	185,601	15,756	-	574,900
Provided for the year	28,762	42,414	68,278	100,833	10,213	-	250,500
Transfer to investment properties	(23,802)	-	-	-	-	-	(23,802)
Eliminated on disposal of subsidiaries (note 48 (a) and (c))	-	-	(913)	(2,921)	-	-	(3,834)
Eliminated on disposals	-	-	-	(7,798)	(1,395)	-	(9,193)
At 31 December 2019	149,723	116,633	221,926	275,715	24,574	-	788,571
CARRYING AMOUNTS							
At 31 December 2019	762,668	667,986	111,687	360,838	15,667	253,213	2,172,059
At 31 December 2018	834,441	207,145	91,479	315,833	529,105	618,803	2,596,806

For the year ended 31 December 2019

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The following useful lives are used in the calculation of depreciation:

Hotel buildings	Over the shorter of the term of lease or 20 years
Leasehold land and buildings	Over the shorter of the term of lease or 50 years
Renovations and leasehold improvements	5 to 10 years
Furniture, fixtures and equipment	5 years
Transportation equipment	5 to 15 years

The hotel buildings and leasehold land and buildings are all situated on land in the PRC and the USA.

As at 31 December 2019, certain of the Group's leasehold land and buildings and hotel buildings with carrying amounts of RMB575,845,000 (2018: RMB132,278,000) were pledged to banks to secure the banking facilities granted to the Group.

As at 31 December 2018, transportation equipment amounting to RMB507,268,000 are held under finance leases. Upon the application of HKFRS 16 at 1 January 2019, the carrying amounts of the transportation equipment held under finance leases were recategorised as right-of-use assets.

During the year ended 31 December 2019, a hotel building with carrying amount of RMB18,112,000 (net of the revaluation deficit of RMB24,899,000 recognised in profit or loss) was transferred to investment properties upon change in use as evidenced by inception of operating leases.

16. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Office premises RMB'000	Transportation equipment RMB'000	Total RMB'000
As at 1 January 2019				
Carrying amount	137,709	73,237	507,268	718,214
As at 31 December 2019				
Carrying amount	376,689	208,824	463,621	1,049,134
For the year ended 31 December 2019				
Depreciation charge	5,459	23,724	43,647	72,830
Expense relating to short-term leases and other leases with lease terms ended within 12 months from the date of initial application of HKFRS 16				36,543
Expense relating to leases of low-value assets, excluding short-term leases and other leases with lease terms ended within 12 months from the date of application of HKFRS 16, of low value assets				1,555
Total cash outflow for leases				229,349
Additions to right-of-use assets				425,438

For both years, the Group leases office premises and transportation equipment for its operations. Lease contracts are entered into for fixed term of 5 months to 31 years. Certain leases of equipment were accounted for as finance leases and carried interest ranged from 7.73% to 10.24% per annum. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several hotel buildings and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group has no extension and/or termination options in the leases for land and office premises.

The lease liabilities of RMB444,396,000 are recognised with related right-of-use assets of RMB603,621,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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17. INVESTMENT PROPERTIES

The Group leases out properties under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 20 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

For the year ended 31 December 2019, no payment is made for acquiring leasehold lands.

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Leasehold lands held for undetermined future use RMB'000	Total RMB'000
At 1 January 2018	8,704,339	1,489,825	–	10,194,164
Additions	–	259,236	–	259,236
Transfer from completed properties for sale	333,862	–	–	333,862
Transfer from property, plant and equipment (note 15)	18,410	–	–	18,410
Transfer from prepaid lease payments	6,412	–	–	6,412
Acquisition of subsidiaries (note 47(a))	–	109,981	–	109,981
Net change in fair value recognised in profit or loss	5,273	131,529	–	136,802
Transfer upon completion of construction work	271,373	(271,373)	–	–
Disposals	(542,890)	–	–	(542,890)
At 31 December 2018	8,796,779	1,719,198	–	10,515,977
Effect arising from initial application of HKFRS 16	–	–	154,750	154,750

17. INVESTMENT PROPERTIES (continued)

(continued)	Completed investment properties RMB'000	Investment properties under construction RMB'000	Leasehold lands held for undetermined future use RMB'000	Total RMB'000
At 1 January 2019 (Adjusted)	8,796,779	1,719,198	154,750	10,670,727
Additions	–	899,132	–	899,132
Transfer from completed properties for sale	1,018,083	–	–	1,018,083
Transfer from property, plant and equipment (note 15)	18,112	–	–	18,112
Transfer from right of use assets (note 16)	21,688	–	–	21,688
Transfer to properties for sale under development upon the commencement of construction work	–	–	(154,750)	(154,750)
Net change in fair value recognised in profit or loss	(203,966)	197,801	–	(6,165)
Transfer upon completion of construction work	964,031	(964,031)	–	–
Disposals	(542,423)	–	–	(542,423)
At 31 December 2019	10,072,304	1,852,100	–	11,924,404
Unrealised (loss) gain on property revaluation included in profit or loss for the year ended 31 December 2019 (note)	(94,912)	197,801	–	102,889
Unrealised gain on property revaluation included in profit or loss for the year ended 31 December 2018 (note)	5,273	131,529	–	136,802

Note: Unrealised gain on property revaluation included change in fair value of investment properties and change in fair value of completed properties for sale upon transfer to investment properties which have been presented on the face of the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2019, the fair value of the Group's completed investment properties of RMB10,072,304,000 (2018: RMB8,796,779,000) and investment properties under development of RMB1,852,100,000 (2018: RMB1,719,198,000) were arrived at on the basis of a valuation carried out by Jones Lang LaSalle Sallmanns Limited, an independent qualified professional valuers which are not connected with the Group, which has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

For the year ended 31 December 2019

17. INVESTMENT PROPERTIES (continued)

As at 31 December 2019, investment properties with fair value of RMB538,653,000 (2018: RMB567,653,000) represented completed car parks which can be legally transferred, leased and mortgaged but the title certificates cannot be currently applied according to the relevant laws and regulations in the PRC.

As at 31 December 2019, certain of the Group's investment properties with an aggregate fair value of RMB4,673,918,000 (2018: RMB2,484,166,000) were pledged to banks to secure the banking facilities granted to the Group.

The valuations of completed investment properties as at 31 December 2019 and 2018 are determined by income capitalisation method and direct comparison method. Income capitalisation method is arrived at by reference to net rental income allowing for reversionary income potential and market evidence of transaction prices for similar properties in the same locations and conditions, where appropriate. The valuations of investment properties under construction as at 31 December 2019 and 2018 are arrived at by residual method and direct comparison method, which is based on market observable transactions of similar properties and taken into account the construction costs that will be expended to complete the development. Direct comparison approach is arrived at by reference to comparable market transactions and suppose that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowance for variable factors. In estimating the fair value of the properties, highest and best use of the properties is their current use.

All of the Group's property interests held under operating leases to earn rentals are classified and accounted for as investment properties and are measured using the fair value model.

The following table gives information about how the fair values of these investment properties as at 31 December 2019 and 2018 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

17. INVESTMENT PROPERTIES (continued)

Investment properties held by the Group	Fair value as at 31 December 2019 RMB'000	Location	Fair value hierarchy	Valuation techniques and key inputs	Significant observable/unobservable inputs	Range	Sensitivity
Completed investment properties	8,504,760	Shenzhen, Tianjin, Chengdu, Nanjing, Dongguan, Guilin, Wuhan, Suzhou, Shanghai, Huizhou	Level 3	Income capitalisation method – income capitalisation of the net income and made provisions for reversionary income potential.	1. Term yield 2. Reversionary yield 3. Vacancy ratio	2.5% – 6% 3% – 6.5% 2% – 15%	A slight increase in term yield would not result in significant decrease in fair value, and vice versa. A slight increase in reversionary yield would not result in significant decrease in fair value, and vice versa. A slight increase in vacancy ratio would not result in significant decrease in fair value, and vice versa.
Completed investment properties	1,567,544	Shenzhen, Huizhou, Wuhan, Dongguan, Tianjin, Shanghai, Chengdu, Nantong, Nanjing, Wuxi, Jingzhou, Jiujiang, Wenzhou, Kunming, Changzhou, Hangzhou, Yantai, Dalian, Taiyuan and Jiangsu	Level 3	Direct comparison method – based on market observable transactions of similar properties and adjusted to reflect the conditions of the subject property.	1. Market unit sales price (RMB/sqm) 2. Adjustment made to account for differences in location	2,500 – 73,900 3% – 10%	A significant increase in market unit sales price would result in significant increase in fair value and vice versa. A significant increase in adjustment would result in significant decrease in fair value and vice versa.
Investment properties under construction	527,400	Hangzhou	Level 3	Residual method – based on gross development value and taken into account the construction costs to completion, developer's profit, marketing costs.	1. Gross development value on completion basis (RMB'000) 2. Developer's profit 3. Marketing costs 4. Construction costs to completion (RMB'000)	1,856,000 12% – 14% 4% 956,590	A significant increase/decrease in gross development value would result in significant increase/decrease in fair value. A significant increase in developer's profit would result in significant decrease in fair value, and vice versa. A slight increase in marketing costs would not result in significant decrease in fair value, and vice versa. A significant increase in construction costs to completion would result in significant decrease in fair value, and vice versa.
Investment properties under construction	1,324,700	Chengdu, Hubei, Nanjing and Suzhou	Level 3	Direct comparison method – based on market observable transactions of similar lands and adjusted to reflect the conditions of the subject lands.	1. Market unit sales price (RMB/sqm) 2. Adjustment made to account for differences in location	560 – 6,900 3% – 10%	A significant increase in market unit sales price would result in significant increase in fair value and vice versa. A significant increase in adjustment would result in significant decrease in fair value and vice versa.
	11,924,404						

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17. INVESTMENT PROPERTIES (continued)

Investment properties held by the Group	Fair value as at 31 December 2018 RMB'000	Location	Fair value hierarchy	Valuation techniques and key inputs	Significant observable/unobservable inputs	Range	Sensitivity
Completed investment properties	8,322,056	Shenzhen, Tianjin, Chengdu, Nanjing, Dongguan, Guilin, Wuhan, Suzhou, Shanghai, Huizhou	Level 3	Income capitalisation method – income capitalisation of the net income and made provisions for reversionary income potential.	1. Term yield	3% – 6%	A slight increase in term yield would not result in significant decrease in fair value, and vice versa.
					2. Reversionary yield	2.3% – 6.5%	A slight increase in reversionary yield would not result in significant decrease in fair value, and vice versa.
					3. Vacancy ratio	0% – 20%	A slight increase in vacancy ratio would not result in significant decrease in fair value, and vice versa.
Completed investment properties	474,723	Shenzhen, Huizhou, Wuhan, Dongguan, Tianjin, Shanghai, Chengdu, Nantong, Nanjing, Wuxi, Jingzhou, Jiujiang, Wenzhou and Kunming	Level 3	Direct comparison method – based on market observable transactions of similar properties and adjusted to reflect the conditions of the subject property.	1. Market unit sales price (RMB/sqm)	3,150 – 15,900	A significant increase in market unit sales price would result in significant increase in fair value and vice versa.
					2. Adjustment made to account for differences in location	3% – 10%	A significant increase in adjustment would result in significant decrease in fair value and vice versa.
Investment properties under construction	1,149,698	Jiangsu, Hangzhou	Level 3	Residual method – based on gross development value and taken into account the construction costs to completion, developer's profit, marketing costs.	1. Gross development value on completion basis (RMB'000)	817,000 – 1,770,000	A significant increase in gross development value would result in significant increase in fair value and vice versa.
					2. Developer's profit	12% – 14%	A significant increase in developer's profit would result in significant decrease in fair value, and vice versa.
					3. Marketing costs	3%	A slight increase in marketing costs would not result in significant decrease in fair value, and vice versa.
					4. Construction costs to completion (RMB'000)	52,000 – 938,000	A significant increase in construction costs to completion would result in significant decrease in fair value, and vice versa.
Investment properties under construction	569,500	Chengdu, Nanjing	Level 3	Direct comparison method – based on market observable transactions of similar lands and adjusted to reflect the conditions of the subject lands.	1. Market unit sales price (RMB/sqm)	2,300 – 2,700	A significant increase in market unit sales price would result in significant increase in fair value and vice versa.
					2. Adjustment made to account for differences in location	3% – 10%	A significant increase in adjustment would result in significant decrease in fair value and vice versa.
10,515,977							

There were no transfers into or out of Level 3 during the year ended 31 December 2019 and 2018.

18. INTERESTS IN ASSOCIATES

	2019	2018
	RMB'000	RMB'000
Cost of investments, unlisted	743,402	1,306,450
Share of post-acquisition results, net of dividends received	14,095	40,136
	757,497	1,346,586

Details of the Group's principal associates at the end of the reporting period are as follow:

Name of entities	Place of incorporation/ establishment	Place of operation	Equity interest attributable to the Group		Proportion of voting power held by the Group		Principal activities
			2019	2018	2019	2018	
Suzhou Linjiayan Property Development Co., Ltd. ("Suzhou Linjiayan") 蘇州林甲岩房產發展有限公司 (note a)	PRC	PRC	43%	43%	43%	43%	Property development in the PRC
Shenzhen Hantian Property Management Co., Ltd. ("Shenzhen Hangtian") 深圳市航天物業管理有限公司 (note b)	PRC	PRC	40.06%	40.06%	40.06%	40.06%	Property management in the PRC
Wuhu Xinjia Investment Center (Limited Partnership) ("Wuhu Xinjia") 蕪湖信嘉投資中心(有限合夥) (note c)	PRC	PRC	–	46%	–	46%	Investment management in the PRC

Notes:

- (a) Pursuant to the article of association of Suzhou Linjiayan, the Group has the right to cast 43% of the votes of Suzhou Linjiayan at the shareholder's meeting, the governing body which directs the relevant activities that significantly affect the returns of Suzhou Linjiayan. The approval of relevant activities require simple majority of shareholders. As the Group holds no more than 50% of the voting power in the shareholders' meeting, therefore, Suzhou Linjiayan is accounted for as an associate of the Group.
- (b) During the year ended 31 December 2018, the Group acquired equity interests in Shenzhen Hangtian at a total consideration of RMB114,262,000, which was fully settled in 2018. Pursuant to the article of association of Shenzhen Hangtian, the Group has the right to cast 40% of the votes of Shenzhen Hangtian at the shareholder's meeting, the governing body which directs the relevant activities that significantly affect the returns of Shenzhen Hangtian. The approval of relevant activities require simple majority of shareholders. As the Group holds no more than 50% of the voting power in the shareholders' meeting, therefore, Shenzhen Hangtian is accounted for as an associate of the Group.
- (c) During the year ended 31 December 2019, the Group has disposed of its interest in Wuhu Xinjia at a consideration of RMB773,397,000, with gain of disposal amounting to RMB111,575,000 recognised and included in "other gains and losses" in the consolidated statement of profit or loss and other comprehensive income. Up to 31 December 2019, the consideration has been fully settled.

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18. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

- (d) During the year ended 31 December 2018, the Group has disposed of its interests in an associate at a consideration of RMB5,000,000, with insignificant gain recognised in the consolidated statement of profit or loss and other comprehensive income.
- (e) Other than the transactions disclosed above, during the year ended 31 December 2019, the Group acquired equity interests in certain associates at a total consideration of RMB98,284,000 (2018: RMB144,246,000). The associates were engaged in property development, property operation services or act as investment holding in the PRC.
- (f) During the year ended 31 December 2019, the Group received dividend of RMB37,131,000 (2018: RMB2,448,000) from associates.

Summarised financial information in respect of the Group's principal associates are set out below. The summarised financial information below represented amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

The associates are accounted for using equity method in these consolidated financial statements.

Suzhou Linjiayan

	2019 RMB'000	2018 RMB'000
Current assets	2,054,410	927,222
Non-current assets	981,656	787,008
Current liabilities	(2,211,378)	(867,224)
Loss and other comprehensive expense for the year	(22,318)	(7,231)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Suzhou Linjiayan recognised in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Net assets of Suzhou Linjiayan	824,688	847,006
Proportion of the Group's ownership interest	43%	43%
Carrying amount of the Group's interest	354,616	364,213

18. INTERESTS IN ASSOCIATES (continued)

Shenzhen Hangtian

Reconciliation of the above summarised financial information to the carrying amount of the interest in Shenzhen Hangtian recognised in the consolidated financial statements:

	2019	2018
	RMB'000	RMB'000
Current assets	160,999	152,824
Non-current assets	67,172	118,089
Current liabilities	(125,827)	(102,950)
Profit and other comprehensive income for the year	22,699	27,542

	2019	2018
	RMB'000	RMB'000
Net assets of Shenzhen Hangtian	102,344	167,963
Proportion of the Group's ownership interest	40.06%	40.06%
	40,999	67,286
Goodwill	74,519	74,519
Carrying amount of the Group's interest	115,518	141,805

Aggregate information of associates that are not individually material:

	2019	2018
	RMB'000	RMB'000
The Group's share of profit and other comprehensive income	11,242	26,956
Aggregate carrying amount of the Group's interests	287,363	915,087

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19. INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Cost of investments, unlisted	2,733,334	1,431,647
Share of post-acquisition results, net of dividends received	(46,336)	(4,689)
	2,686,998	1,426,958

Details of the Group's principal joint ventures at the end of the reporting period are as follow:

Name of entities	Place of incorporation/ establishment	Place of operation	Equity interest attributable to the Group		Proportion of voting power held by the Group		Principal activities
			2019	2018	2019	2018	
Beijing Yaxinke Tianwei Fuel Pumps Co., Ltd. ("Beijing Yaxinke") 北京亞新科天緯油泵油嘴股份有限公司 (notes a and b)	PRC	PRC	35.69%	35.69%	35.69%	35.69%	Property development in the PRC
Shenzhen Yushi Property Development Co., Ltd. ("Shenzhen Yushi") 深圳玉石房地產開發有限公司 (notes b and 48(c))	PRC	PRC	51.00%	–	51.00%	–	Property development in the PRC
Shenzhen Fantasia Property Development Co., Ltd. ("Shenzhen Fantasia") 深圳市花樣年房地產開發有限公司 (notes b and 48(c))	PRC	PRC	50.00%	–	50.00%	–	Property development in the PRC

Notes:

- (a) In 2018, the Group and an independent investor ("Investor") have agreed, in written, that the Investor will acquire 64.30% equity interest in Beijing Yaxinke on the condition that the Group has obtained 64.30% shareholding in Beijing Yaxinke. Upon completion of the acquisition, the Group's shareholding in Beijing Yaxinke was diluted from 59.85% to 35.69% and the Investor holds 64.30% equity interests in Beijing Yaxinke in aggregate. In accordance with the amended article of association, the board of directors of Beijing Yaxinke, the governing body which directs the relevant activities that significantly affect the returns of Beijing Yaxinke, consists of seven directors of which the Group and the Investor can appoint four directors and three directors, respectively, and the approval of relevant activities of Beijing Yaxinke require two third of directors' votes, therefore, Beijing Yaxinke is jointly controlled by the Group and the Investor and classified as interest in a joint venture. Beijing Yaxinke hold a parcels of land located in Beijing and a manufacturing plant located in Tianjin in the PRC.
- (b) All these companies are accounted for as joint ventures as at respective period end date as in accordance with the memorandum and articles of the companies, major financial and operating policies of these companies require the unanimous consent of all directors.
- (c) During the year ended 31 December 2019, the Group made total capital contributions of RMB22,483,000 (2018: RMB73,762,000) to establish certain joint ventures with a number of joint venture partners. The joint ventures mainly engaged in property development and property operation services.

19. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

- (d) During the year ended 31 December 2019, the Group has disposed of its interests in a joint venture at a consideration of RMB20,000,000 (2018: nil), with insignificant gain recognised in the consolidated statement of profit or loss and other comprehensive income.
- (e) During the year ended 31 December 2019, the Group received dividend of RMB12,021,000 (2018: RMB2,403,000) from joint ventures.

Summarised financial information in respect of the Group's principal joint venture is set out below. The summarised financial information below represented amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using equity method in these consolidated financial statements.

Beijing Yaxinke

	2019	2018
	RMB'000	RMB'000
Current assets	4,796,077	3,488,611
Current liabilities	(2,906,026)	(1,466,611)
Loss and other comprehensive expense for the year	(131,949)	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Beijing Yaxinke recognised in the consolidated financial statements:

	2019	2018
	RMB'000	RMB'000
Net assets of Beijing Yaxinke	1,890,051	2,022,000
Proportion of the Group's ownership interest	35.69%	35.69%
Carrying amount of the Group's interest	674,559	721,652

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19. INTERESTS IN JOINT VENTURES (continued)

Shenzhen Yushi

	2019 RMB'000	2018 RMB'000
Current assets	2,760,988	N/A
Current liabilities	(890,887)	N/A
Loss and other comprehensive expense for the year	(245)	N/A

Reconciliation of the above summarised financial information to the carrying amount of the interest in Shenzhen Yushi recognised in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Net assets of Shenzhen Yushi	1,870,101	N/A
Proportion of the Group's ownership interest	51.00%	N/A
Carrying amount of the Group's interest	953,752	N/A

Shenzhen Fantasia

	2019 RMB'000	2018 RMB'000
Current assets	1,477,758	N/A
Current liabilities	(807,596)	N/A
Loss and other comprehensive expense for the year	(494)	N/A

Reconciliation of the above summarised financial information to the carrying amount of the interest in Shenzhen Fantasia recognised in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Net assets of Shenzhen Fantasia	670,162	N/A
Proportion of the Group's ownership interest	50.00%	N/A
Carrying amount of the Group's interest	335,081	N/A

19. INTERESTS IN JOINT VENTURES (continued)

Aggregate information of joint ventures that are not individually material:

	2019	2018
	RMB'000	RMB'000
The Group's share of profit (loss) and other comprehensive income (expense)	17,839	(11,140)
Aggregate carrying amount of the Group's interests	723,606	705,306

20. FINANCIAL ASSETS AT FVTPL

	Notes	2019	2018
		RMB'000	RMB'000
Money market fund investments	(a)	29,051	89,196
Debt Instrument	(b)	1,420,000	2,038,000
		1,449,051	2,127,196

Notes:

- (a) The money market fund investments were issued by a reputable securities corporation. The return and principal of money market fund investments were not guaranteed by the securities corporation. The investments as above have been measured at FVTPL at initial recognition as the investments are managed and the performance is evaluated on fair value basis.
- (b) In 2017, the Group and an independent investor made capital contributions of RMB100,000,000 and RMB1,000,000,000, respectively to Jiaxing Fangyan Investment Partnership (Limited Partnership) (嘉興方宴投資合夥企業(有限合夥)) ("Jiaying Fangyan") which then acquired from an independent third party a defaulted loan receivable from a property developer (the "Borrower") in the PRC ("Debt Instrument"), at a cash consideration of RMB1,100,000,000. Pursuant to the supplemental partnership agreement entered into between the Group and the independent investor in August 2018, the Group has obtained 100% beneficial interests in Jiaying Fangyan and Jiaying Fangyan was accounted for as a subsidiary of the Company. The Debt Instrument was acquired by the Group through the acquisition of Jiaying Fangyan.

The Debt Instrument was defaulted by a property developer in 2015 and it is pledged with certain completed properties located in Beijing, the PRC. The Debt Instrument can be recovered through the realisation of the properties under pledge in judicial auction.

During the year ended 31 December 2019, the Group received RMB1,000,000,000 from The Third Intermediate People's Court of Beijing through the realisation of other properties of the Borrower in judicial auction for partial repayment of the interest portion of RMB1,000,000,000 regarding the aforesaid defaulted loan. Thereafter, the Group continued to negotiate with The Third Intermediate People's Court of Beijing for the realisation of the properties of the Borrower.

As at 31 December 2019, as advised by the legal counsel of the Company on the tentative timetable of the judicial auction, the directors of the Company considered that the Debt Instrument would be settled through judicial auction within one year from the end of the reporting period and is classified under current assets.

According to the valuation report prepared by an independent professional valuer, the fair value of the Debt Instrument is RMB1,420,000,000 (2018: RMB2,038,000,000) as at 31 December 2019.

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20. FINANCIAL ASSETS AT FVTPL (continued)

The fair value of the money market fund investments at 31 December 2019 and 2018 are determined by market approach, which arrived at by reference to the performance of the underlying investments mainly comprising debt investments in PRC including government debentures, treasury notes, corporate bonds and short-term fixed deposits.

As at 31 December 2019, the principal of the money market fund investments are RMB29,051,000 (2018: RMB89,196,000). In the opinion of directors, the fair value of investment at 31 December 2019 approximated to their principal amount and the fair value gain of the money market fund investments amounting to RMB3,958,000 (2018: RMB1,273,000) was recognised in other gains and losses during the year ended 31 December 2019.

The fair value of the Debt Instrument at 31 December 2019 is determined by management, with reference to a valuation report prepared by professional valuer, to be RMB1,420,000,000 (2018: RMB2,038,000,000) and the fair value gain of the Debt Instrument amounting to RMB382,000,000 (2018: RMB938,000,000) was recognised in other gain and losses during the year ended 31 December 2019. The fair value of the Debt Instrument is determined based on the probability weighted expected return model, which involved estimation of cash flows that can be recovered from the Debt Instrument under different scenarios of the outcomes of the judicial auction. The valuations of the Debt Instrument are dependent on certain unobservable inputs, including the expected value, discount rate and probability of outcome of the judicial auction. Details of the fair value measurement of the investments are set out in note 51(c).

21. EQUITY INSTRUMENTS DESIGNATED AT FVTOCI

	2019 RMB'000	2018 RMB'000
Unlisted equity investments		
– Property operation services (note)	53,702	45,167
– Others	6,384	6,384
	60,086	51,551

Note: These unlisted equity securities represented the investments in certain private entities, which represented the equity interests ranging from 1% to 20% in the investees as at 31 December 2019 and 2018. The investees are mainly engaged in property operation services. Details of the fair value measurement of the investments are set out in note 51(c).

22. GOODWILL

	RMB'000
COST	
At 1 January 2018	2,381,332
Arising on acquisition of businesses (note 47(b))	46,796
Disposal of subsidiaries (note 48(a) and (c))	(6,831)
At 31 December 2018	2,421,297
Arising on acquisition of businesses (note 47(b))	69,198
At 31 December 2019	2,490,495
IMPAIRMENT	
At 1 January 2018 and 31 December 2018	81,574
Impairment loss recognised	10,000
At 31 December 2019	91,574
CARRYING VALUES	
At 31 December 2019	2,398,921
At 31 December 2018	2,339,723

For the purpose of impairment testing, goodwill above has been allocated to two groups of cash-generating units, comprising a group of subsidiaries in property operation services collectively as the property operation cash-generating units ("Property Operation CGU") and a group subsidiaries in travel agency services collectively as the travel agency cash-generating units ("Travel Agency CGU"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2019 and 2018 allocated to these cash-generating units are as follow:

	2019	2018
	RMB'000	RMB'000
Property Operation CGU	2,329,732	2,260,534
Travel Agency CGU	69,189	79,189
	2,398,921	2,339,723

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22. GOODWILL (continued)

The recoverable amounts of Property Operation CGU have been determined based on a value-in-use calculation. The calculation uses cash flow projection based on financial budgets approved by the management covering a five-year period, growth rates in revenue, estimated gross profit, estimated profit before tax and discount rates as at 31 December 2019 and 2018.

The discount rates reflect specific risks relating to Property Operation CGU. The growth rates within the five-year period have been based on past experience and management's expectation of market development. The cash flows beyond the five-year period are extrapolated using zero growth rate.

	2019	2018
Discount rates	19%	21% – 22%
Growth rate within the five-year period	6% – 10%	6% – 11%

The management of the Group believes that any reasonably possible change in the key estimation of the value-in-use calculation would not cause the carrying amounts of Property Operation CGU to exceed its recoverable amounts.

During the year ended 31 December 2019, in the opinion of the directors of the Company, the performance of Travel Agency CGU was declined due to the unfavourable market condition which seriously affected the financial performance of tourism industry in Hong Kong. The carrying amount of the assets (including goodwill allocated to Travel Agency CGU) of the Travel Agency CGU is determined to be higher than the recoverable amount of RMB107,004,000 at 31 December 2019. Therefore, the Group recognised an impairment loss of RMB10,000,000 in relation to goodwill allocated to Travel Agency CGU.

The recoverable amounts of Travel Agency CGU have been determined based on value in use calculation using cash flow projections based on financial budget covering a five-year period approved by the management. The growth rate used to extrapolate the cash flows beyond the five-year period was 2.93% (2018: 2.93%). The growth rate does not exceed long-term average growth rate for the business in which the cash-generating unit operates. The key assumptions based upon are the discount rate, budgeted profit margin and revenues during the forecast period.

The basis of revenues and budgeted profit margin used to determine the value assigned is based on past performance and management expectation on the management's ability to progress and to generate economic income stream through provision of travel agency service.

The discount rate used is before tax and reflect specific risks relating to the travel agency business in Hong Kong. The pre-tax discount rate applied to cash flow projections was 13.9% (2018: 13.7%).

In March 2020, the Group entered into a sales and purchase agreement with an independent third party in relation to the disposal of the travel agency business through a disposal of certain subsidiaries at a consideration of RMB61,558,000 and the Group has assigned the shareholders' loan to the third party of which the amount is determined upon the completion date. At the date these consolidated financial statements are authorised for issuance, the disposal of the Travel Agency CGU has been completed. In the opinion of the directors of the Company, the consideration approximates to the carrying amount of the net assets of the Travel Agency CGU at 31 December 2019 and the gain or loss on disposal of the travel agency business is insignificant to the consolidated financial statements.

23. INTANGIBLE ASSETS

	Property management contracts and customers' relationship RMB'000	Trademark RMB'000	Total RMB'000
COST			
At 1 January 2018	1,343,678	52,441	1,396,119
Arising on acquisition of subsidiaries (note 47(b))	8,920	–	8,920
At 31 December 2018	1,352,598	52,441	1,405,039
Arising on acquisition of subsidiaries (note 47(b))	83,872	–	83,872
At 31 December 2019	1,436,470	52,441	1,488,911
AMORTISATION			
At 1 January 2018	69,224	6,994	76,218
Provided for the year	136,428	3,497	139,925
At 31 December 2018	205,652	10,491	216,143
Provided for the year	139,546	3,497	143,043
At 31 December 2019	345,198	13,988	359,186
CARRYING AMOUNT			
At 31 December 2019	1,091,272	38,453	1,129,725
At 31 December 2018	1,146,946	41,950	1,188,896

The property management contracts, customers' relationship and trademark were acquired from third parties through the acquisition of subsidiaries.

The intangible assets have finite useful lives and are amortised on a straight line basis over 5 years to 15 years.

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24. PREPAID LEASE PAYMENTS

	2018
	RMB'000
Analysed for reporting purposes as:	
Non-current assets	206,743
Current assets	6,750
	213,493

During the year ended 31 December 2018, prepaid lease payments of RMB516,859,000 was transferred to properties under development for sale; prepaid lease payments of RMB6,412,000 was transferred to investment properties under construction upon commencement of the related construction work in certain property development projects.

During the year ended 31 December 2018, prepaid lease payments of RMB19,234,000 were acquired through acquisition of subsidiaries and prepaid lease payments of RMB41,044,000 was disposed through disposal of subsidiaries, details are set out in notes 47(a) and 48(c), respectively.

As at 1 January 2019, the current and non-current portion of prepaid lease payments in relation to the leasehold lands held for own use, amounting to RMB4,525,000 and RMB133,184,000, respectively, were reclassified to right-of-use assets, while the current and non-current portion of prepaid lease payments in relation to the leasehold lands held for currently undetermined future use, amounting to RMB2,225,000 and RMB73,559,000, respectively, were transferred to investment properties, upon application of HKFRS 16.

25. PREMIUM ON PREPAID LEASE PAYMENTS

As at 31 December 2018, premium on prepaid lease payments of the Group represent the excess of the fair value over the carrying amount of the prepaid lease payments and amounting to RMB78,966,000 in respect of leasehold lands in the PRC acquired through acquisition of subsidiaries during the year and are amortised over the period of the remaining lease term on a straight-line basis.

	2018
	RMB'000
Analysed for reporting purposes as:	
Non-current assets	76,418
Current assets	2,548
	78,966

As at 1 January 2019, the current and non-current portion of premium on prepaid lease payments in relation to the leasehold lands held for currently undetermined future use, amounting to RMB2,548,000 and RMB76,418,000, respectively, were transferred to investment properties, upon application of HKFRS 16.

26. AMOUNTS DUE FROM RELATED PARTIES

	2019	2018		
	RMB'000	RMB'000		
Non-controlling shareholders of the subsidiaries of the Company	306,669	319,230		
Joint ventures	1,238,327	182,777		
Associates	40,541	15,909		
Related parties	205,112	–		
	1,790,649	517,916		
Less: Amounts expected to realise after 1 year and shown under non-current assets	(958,190)	(81,505)		
Amounts expected to realise within 1 year and shown under current assets	832,459	436,411		
Related parties	Relationship	Nature	2019	2018
			RMB'000	RMB'000
Shenzhen Colour Pay Network Technology Co., Ltd. (深圳市彩付寶科技有限公司) ("Shenzhen Colour Pay")	A related company controlled by Mr. Pan Jun, a director and the chief executive officer of the Company	– Non-trade nature – Trade nature	110,856 54,597	–
Shenzhen Tiankuo Investment Development Co., Ltd. (深圳市天闊投資發展有限公司)	A related company controlled by Ms. Zeng Jie, Baby, the controlling shareholder and director of the Company	– Non-trade nature	39,659	–
			205,112	–

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26. AMOUNTS DUE FROM RELATED PARTIES (continued)

For the trade balance due from Shenzhen Colour Pay regarding online promotion services income, credit term of one year is granted from issuance of invoices. The following is an aging analysis of trade balance due from a related party presented based on the invoice date at the end of the reporting period, which approximated to the respective revenue recognition date:

	2019
	RMB'000
0 to 30 days	15,665
31 to 90 days	22,278
91 to 180 days	16,654
	54,597

The remaining amounts due from non-controlling shareholders of the subsidiaries of the Company, joint ventures, associates and related parties are non-trade in nature, unsecured, interest-free and repayable on demand.

The subsidiaries, joint ventures, associates and related parties are mainly engaged in property development, property management and property leasing business, the Group determined the current or non-current portion based on the expected date of recovery of the advances, which is by reference to the status of the property projects and the financial position of the subsidiaries, joint ventures, associates and related parties.

Details of the impairment assessment are set out in note 51(b).

27. DEPOSITS PAID FOR POTENTIAL ACQUISITION OF SUBSIDIARIES AND INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

- (a) As at 31 December 2019, the Group had made deposits of RMB124,593,000 (2018: RMB124,593,000) in relation to the acquisition of the equity interests in a property project company from an independent third party. The precedent condition for the acquisition is the approval of change of use of the target land use right by the PRC local government, from industrial land to residential and commercial land.

Pursuant to the sale and purchase agreements, in case the transaction is not completed, the deposit would be fully refunded to the Group by the vendor. At the date these consolidated financial statements are authorised for issuance, the acquisition of the equity interests have not been completed.

- (b) As at 31 December 2019, the Group had made deposits of RMB9,868,000 (2018: RMB69,834,000) in relation to the acquisition of equity interests in certain companies which are principally engaged in property operation in the PRC from independent third parties.

During the year ended 31 December 2019, the acquisition of equity interests in certain companies with the deposits paid of RMB60,668,000 as at 31 December 2018 have been completed.

Pursuant to the sale and purchase agreements, in case the transaction is not completed, the deposit would be fully refunded to the Group by the vendors. At the date these consolidated financial statements are authorised for issuance, the acquisition of these equity interests have not been completed.

- (c) As at 31 December 2019, the Group had made deposits of RMB717,566,000 (2018: nil) in relation to the investments in certain associates and joint ventures, which are principally engaged in property development in the PRC, and cooperation in the property development projects with a number of independent investors.

Pursuant to the investment agreements, in case the property project company cannot succeed in public land auction, the deposit would be fully refunded to the Group by the independent investors and/or the investees.

At the date these consolidated financial statements are authorised for issuance, the property project companies had been succeed in public land auction and the aforesaid investments would be transferred to interests in associates or joint ventures upon the incorporation of associates and joint ventures.

28. DEPOSIT PAID FOR ACQUISITION OF A PROPERTY PROJECT

As at 31 December 2018, the Group had made deposit RMB202,961,000 in relation to the acquisition of a property project from an independent property developer. The aforesaid deposit related to acquisition of a property for the operation of elderly care business and is therefore classified as non-current assets.

During the year ended 31 December 2019, the acquisition of this property project has been completed. Upon completion of the acquisition of the property project, the deposit paid to date amounting to RMB204,817,000 was transferred to right-of-use assets.

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29. DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2018, the Group had made deposits of RMB228,703,000 in relation to acquisition of land use rights from independent third parties. During the year ended 31 December 2019, the acquisition of land use rights have been completed and the deposits paid were transferred to properties under development for sale.

30. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	(710,650)	(565,707)
Deferred tax liabilities	1,569,772	1,734,943
	859,122	1,169,236

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Fair value change of investment properties and financial assets at FVTPL RMB'000	Revaluation of properties and other assets RMB'000	Temporary differences on deductible expenses RMB'000 (note a)	Tax losses RMB'000	Intangible assets RMB'000	Others RMB'000 (note b)	Total RMB'000
At 1 January 2018	1,403,903	256,596	(45,599)	(151,538)	325,360	(495,272)	1,293,450
Charge (credit) to profit and loss	280,997	2,781	32,325	(1,013)	(34,981)	(107,596)	172,513
Credit to other comprehensive income	-	-	-	-	-	(60)	(60)
Acquisition of subsidiaries (note 47(b))	-	-	-	-	2,230	-	2,230
Disposal of subsidiaries (note 48(c))	-	(298,897)	-	-	-	-	(298,897)
At 31 December 2018	1,684,900	(39,520)	(13,274)	(152,551)	292,609	(602,928)	1,169,236
Charge (credit) to profit and loss	(180,851)	-	4,444	(2,387)	(35,761)	(117,898)	(332,453)
Credit to other comprehensive income	-	1,371	-	-	-	-	1,371
Acquisition of subsidiaries (note 47(b))	-	-	-	-	20,968	-	20,968
At 31 December 2019	1,504,049	(38,149)	(8,830)	(154,938)	277,816	(720,826)	859,122

Notes:

- (a) Temporary differences on deductible expenses mainly represent advertising expenses, ECL allowance and incremental sales commission, which would be deductible in the future.
- (b) Others mainly represent the temporary differences arising from LAT provision and financing component in respect of contract liabilities.

30. DEFERRED TAXATION (continued)

As at 31 December 2019, the Group had unutilised tax losses of RMB4,537,222,000 (2018: RMB2,999,780,000). A deferred tax asset has been recognised in respect of RMB619,752,000 (2018: RMB610,204,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB3,917,470,000 (2018: RMB2,389,576,000) due to the unpredictability of future profits streams.

As at 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised, was RMB18,521,081,000 (2018: RMB15,883,154,000). No deferred tax liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

31. PROPERTIES FOR SALE

	2019	2018
	RMB'000	RMB'000
Completed properties for sale	10,490,488	8,451,136
Properties under development for sale	24,983,074	26,431,268
	35,473,562	34,882,404
Analysis of leasehold lands:		RMB'000
As at 1 January 2019		
Carrying amount		8,979,716
As at 31 December 2019		
Carrying amount		9,242,179
For the year ended 31 December 2019		
Total cash outflow		1,866,999
Additions		2,054,736

Effective from 1 January 2019, the carrying amount of leasehold lands is measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge on the leasehold lands taking into account the estimated residual values as at 31 December 2019.

As at 31 December 2019, certain of the Group's properties for sale with a carrying amount of RMB8,164,030,000 (2018: RMB6,374,242,000) were pledged to secure certain banking facilities granted to the Group.

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31. PROPERTIES FOR SALE (continued)

During the year ended 31 December 2019, completed properties for sale with an aggregate carrying amount of RMB1,019,193,000 (2018: RMB251,453,000) were transferred to investment properties upon change in use as evidenced by the inception of operating leases. The loss from change in fair value of these properties at the date of transfer amounting to RMB1,110,000 (2018: gain on change in fair value amounting to RMB82,409,000) were recognised in the consolidated statement of profit or loss and other comprehensive income for the year.

Included in the amount are properties under development for sale of RMB14,124,778,000 (2018: RMB17,061,599,000) in relation to property development projects that are expected to complete after one year from the end of the reporting period.

32. CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Unbilled revenue of		
– construction of properties	692,359	370,999
– engineering services	70,324	81,698
Retention receivables	198	243
	762,881	452,940
Less: allowance for impairment losses	(3,928)	(3,350)
	758,953	449,590
Classified as:		
Non-current assets	22,229	–
Current assets	736,724	449,590
	758,953	449,590

As at 1 January 2018, contract assets amounted to RMB122,644,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional upon the satisfaction by the customers on the construction work completed and/or engineering services rendered by the Group. The amounts are transferred out of contract assets to trade receivables when the rights become unconditional.

Details of the impairment assessment are set out in note 51(b).

33. CONTRACT COSTS

	2019	2018
	RMB'000	RMB'000
Incremental costs to obtain contracts	410,502	201,414

Contract costs capitalised as at 31 December 2019 and 2018 relate to the incremental sales commissions paid to intermediaries/employees whose selling activities resulted in customers entering into sale and purchase agreements for the Group's properties which are still under construction at the reporting date. Contract costs are recognised as part of cost of sales in the consolidated statement of profit or loss in the period in which revenue from the related property sales is recognised. The amount of capitalised costs recognised in profit or loss during the year was RMB289,023,000 (2018: RMB90,414,000). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year ended 31 December 2018 and 2019.

34. TRADE AND OTHER RECEIVABLES

	Notes	2019	2018
		RMB'000	RMB'000
Trade receivables			
– contracts with customers	(a)/(b)	2,482,579	1,915,161
– leasing	(b)	20,974	41,966
Other receivables	(c)	1,032,279	889,364
Loan receivables	(d)	209,474	247,211
Prepayments and other deposits	(e)	2,022,843	1,446,854
Prepayments to suppliers		288,712	229,926
Prepayments for construction work		784,646	641,626
Consideration receivables on disposal of equity interests in subsidiaries and an associate		505,973	32,000
Amount due from Pixian Government	(f)	122,830	122,830
Other tax prepayments	(g)	1,005,103	529,788
		8,475,413	6,096,726
Less: Amounts shown under non-current assets		(610,511)	(158,698)
Amounts shown under current assets		7,864,902	5,938,028

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34. TRADE AND OTHER RECEIVABLES (continued)

Notes:

- (a) As at 31 December 2019 and 2018, trade receivables from contracts with customers amounted to RMB2,482,579,000 and RMB1,915,161,000, respectively.

Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the date of agreement. For sales of certain completed commercial apartments in 2019, the credit term granted to a customer is 50% to be settled at the date of signing sales and purchase agreement and the remaining 50% to be settled within one year from the date of the sales and purchase agreement.

Property operation service fee is received in accordance with the terms of the relevant service agreements, normally within 30 days to 1 year after the issuance of demand note. Each customer from property operation services has a designated credit limit.

Hotel operation and travel agency service income are mainly in form of settlement in cash and credit cards.

Rental income from investment properties is received in accordance with the terms of the relevant lease agreements, normally within 30 days from the issuance of invoices.

Consideration in respect of fuel pumps sold is paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the date of delivery of fuel pumps. Each customer from sales of fuel pumps has a designated credit limit.

- (b) The following is an aged analysis of trade receivables of the Group net of allowance for impairment losses presented based on the date of delivery of the properties to the customers for property sale or the invoice date or date of demand note for rendering of services at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
0 to 30 days	914,566	996,756
31 to 90 days	292,224	506,815
91 to 180 days	336,208	280,436
181 to 365 days	869,912	84,682
Over 1 year	90,643	88,438
	2,503,553	1,957,127

As at 31 December 2019, trade receivables mainly represented receivables amounting to RMB1,361,356,000 (2018: RMB880,046,000) from sales of properties, RMB933,619,000 (2018: RMB801,033,000) from property operation services, RMB20,974,000 (2018: RMB41,966,000) from leasing and RMB187,604,000 (2018: RMB234,082,000) from other segments.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB888,184,000 (2018: RMB733,584,000) which are past due as at the reporting date. Out of the past due balances, RMB388,871,000 (2018: RMB453,556,000) has been past due 90 days or more and is not considered as in default, as the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

34. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) (continued)

Movement in the allowance for impairment losses

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit impaired) RMB'000	Total RMB'000
Balance at 1 January 2018	2,347	98,305	100,652
Impairment losses, net of reversal	13,514	27,602	41,116
Transfer to credit-impaired	(7,319)	7,319	–
Amounts written off	–	(78,893)	(78,893)
Balance at 31 December 2018	8,542	54,333	62,875
Impairment losses, net of reversal	4,095	18,508	22,603
Transfer to credit-impaired	(4,928)	4,928	–
Amounts written off	–	(1,711)	(1,711)
Balance at 31 December 2019	7,709	76,058	83,767

(c) The balance mainly includes the payment on behalf of residents for the utilities and sundry charges of property operation services segment.

Movement in the allowance for impairment losses

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit impaired) RMB'000	Total RMB'000
Balance at 1 January 2018	5,878	84,511	90,389
Impairment losses, net of reversal	5,027	35,914	40,941
Transfer to credit-impaired	(599)	599	–
Amounts written off	–	(8,419)	(8,419)
Balance at 31 December 2018	10,306	112,605	122,911
Impairment losses, net of reversal	3,847	48,793	52,640
Transfer to credit-impaired	(2,312)	2,312	–
Amounts written off	–	(23,525)	(23,525)
Balance at 31 December 2019	11,841	140,185	152,026

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34. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(d) The loan receivables are as follows:

	Notes	2019 RMB'000	2018 RMB'000
Fixed-rate loans provided to			
– online platform and community-related service companies	(i)	161,817	221,944
– property management companies	(ii)	63,907	25,267
		225,724	247,211
Less: allowance for credit losses		(16,250)	–
		209,474	247,211

(i) As at 31 December 2019, the Group has entered into loan agreements with certain independent third parties, which engages in provision of online platform and community-related services, regarding the fund provision of RMB161,817,000 (2018: RMB221,944,000). The loans carry interests ranging from 5% to 18% (2018: 6% to 15%) per annum and will mature from February 2020 to December 2020. Included in loan receivables, the amounts of RMB32,500,000 (2018: RMB32,500,000) are pledged by equity interest in the borrower and amounts of RMB20,000,000 (2018: RMB24,000,000) are pledged by properties and land use rights held by the independent third parties. At 31 December 2019, all the loan receivables of RMB161,817,000 are due in one year and are classified as current assets. At 31 December 2018, the amounts of RMB194,431,000 are due in one year and are classified as current assets and the amounts of RMB27,513,000 are due after one year and are classified as non-current assets.

(ii) At 31 December 2019, the Group has entered into loan agreements with certain independent third parties, which engages in provision of property management services, regarding the fund provision of RMB63,907,000 (2018: RMB25,267,000). The loans carry interests ranging from 10% to 15% (2018: 15%) per annum and will mature from September 2019 to June 2025. At 31 December 2019, the amounts of RMB56,049,000 (2018: RMB16,912,000) are due in one year and are classified as current assets and the amounts of RMB7,858,000 (2018: RMB8,355,000) are due after one year and are classified as non-current assets.

Movements of allowance for credit losses under lifetime ECL in relation to loan receivables

	Lifetime ECL (credit-impaired) RMB'000
Balance at 1 January 2018 and 31 December 2018	–
Impairment loss	16,250
Balance at 31 December 2019	16,250

(e) The balance included refundable tender deposits, amounting to RMB1,171,211,000 (2018: RMB152,702,000), paid for public land auctions of property development projects in the PRC, which will be fully refunded if the public land auction is not succeed.

During the year ended 31 December 2019, in relation to the tender deposits amounting to RMB152,702,000 as at 31 December 2018, the public auctions have been succeeded and the land use rights were transferred to properties under development for sale.

At the date these consolidated financial statements are authorised for issuance, in relation to the tender deposits amounting to RMB1,095,210,000 as at 31 December 2019, the public auctions have been succeed and the land use rights or property development projects would be transferred to the Group upon the settlement of the remaining considerations.

34. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

- (f) The balance represented the amount due from the Pixian Government in relation to the land development project located in Chengdu, Sichuan Province. Pursuant to the agreement between the Group and Pixian Government, the Group is responsible for provision of funds to Pixian Government and management of the Land Development Project to Pixian Government while the Pixian Government is required to repay finance cost at benchmark lending rate of People's Bank of China, investment income at 12% per annum and project management fee at 3% per annum.

As at 31 December 2019, the outstanding principal amounting to RMB122,830,000 (2018: RMB122,830,000) is required to be settled upon disposal of land by Pixian Government which is expected to be over one year from the end of the reporting period and is classified under non-current assets.

- (g) As at 31 December 2019, the balance mainly represented business tax and value-added tax amounting to RMB998,302,000 (2018: RMB502,207,000) in accordance with the relevant PRC tax rules in respect of its pre-sale of property development projects which has been prepaid and included in other tax prepayments.

Details of the impairment assessment are set out in note 51(b).

35. RESTRICTED/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The restricted/pledged bank deposits amounting to RMB1,191,032,000 (2018: RMB1,192,375,000) will be released upon the buyers obtaining the individual property ownership certificate, while a total amount of RMB533,136,000 (2018: RMB167,036,000) are proceeded from presale of properties with the restriction of use for settlement of construction costs for relevant property projects. Term deposits amounting to RMB393,006,000 (2018: RMB430,000,000) and RMB547,500,000 (2018: RMB558,457,000) were pledged to banks to secure current and non-current banking facilities granted to the Group, respectively.

The Group's restricted/pledged bank deposits and bank balances carry variable interest rates ranging from 0.04% to 5.39% (2018: 0.04% to 4.71%) per annum and from 0.01% to 3.14% (2018: 0.02% to 2.90%) per annum, respectively.

As at 31 December 2019 and 2018, bank balances of the relevant group entities denominated in foreign currencies are as below:

	2019	2018
	RMB'000	RMB'000
Hong Kong Dollars ("HKD")	60,509	1,170,454
United States Dollars ("USD")	222,052	660,827
Singapore Dollars ("SGD")	16,144	16,604
Japanese Yen ("JPY")	8,113	23,391

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36. TRADE AND OTHER PAYABLES

	Notes	2019 RMB'000	2018 RMB'000
Trade payables		4,564,256	5,612,333
Deposit received	(a)	867,786	620,582
Other payables	(b)	522,791	872,599
Other tax payables		806,341	1,492,445
Accrued staff costs		633,705	848,205
Consideration payables for acquisition of subsidiaries (note 47)		871,551	869,397
Accruals		132,360	78,022
		8,398,790	10,393,583

Trade payables principally comprise amounts outstanding for purchase of materials and subcontracting fee for the construction of properties for sale. The average credit period for purchase of construction materials and settlement of subcontracting fee ranged from two months to one year.

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
0 to 60 days	2,181,693	2,801,902
61 to 180 days	1,119,353	1,541,021
181 to 365 days	637,509	784,916
1 – 2 years	544,625	383,922
2 – 3 years	64,535	82,438
Over 3 years	16,541	18,134
	4,564,256	5,612,333

Notes:

- (a) The balance of deposits received amounting to RMB867,786,000 (2018: RMB620,582,000) mainly represents the earnest money received from potential property buyers.
- (b) The balance of other payables mainly represents receipts on behalf of residents amounting to RMB413,982,000 (2018: RMB462,038,000).

37. CONTRACT LIABILITIES

	2019	2018
	RMB'000	RMB'000
Sales of completed properties	18,728,016	12,723,043
Provision of property operation services	432,322	316,028
	19,160,338	13,039,071

As at 1 January 2018, contract liabilities amounted to RMB6,117,128,000.

The following table shows how much of the revenue recognised in both years relates to carried-forward contract liabilities.

	Sales of developed properties	Property operation services	Total
	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year ended 31 December 2019	7,546,735	314,961	7,861,696

	Sales of developed properties	Property operation services	Total
	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year ended 31 December 2018	2,937,329	498,273	3,435,602

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37. CONTRACT LIABILITIES (continued)

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sales of completed properties

The Group receives 30% to 100% of the contract value as deposits from customers when they sign the sale and purchase agreement. However, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing. The advance payment schemes result in contract liabilities being recognised throughout the property construction period until the customer obtains control of the completed property.

In addition, the Group considers the advance payment schemes contain significant financing component and accordingly the amount of consideration is adjusted for the effects of the time value of money taking into consideration the credit characteristics of the relevant group entities. As this accrual increases the amount of the contract liability during the period of construction, it increases the amount of revenue recognised when control of the completed property is transferred to the customer.

Provision of property operation services

When the Group receives the monthly property management service fee from customers at the beginning of the month, it will give rise to contract liabilities, until the revenue is recognised on the relevant contract upon provision of property management services, which are expected to be satisfied within one year from the date of advance payment made by customers.

38. AMOUNTS DUE TO RELATED PARTIES

	2019 RMB'000	2018 RMB'000
Non-controlling shareholders of the subsidiaries of the Company	465,501	335,850
Associates	23,765	19,971
Joint ventures	354,587	368
	843,853	356,189

The amounts due to joint ventures, associates and non-controlling shareholders of the subsidiaries of the Company are non-trade in nature, unsecured, interest-free and repayable on demand.

39. BORROWINGS

	Notes	2019 RMB'000	2018 RMB'000
Bank loans		8,287,246	10,472,188
Other loans	(a)	5,698,116	8,683,366
		13,985,362	19,155,554
Secured	(b)	12,720,077	16,161,519
Unsecured		1,265,285	2,994,035
		13,985,362	19,155,554
Carrying amount repayable:			
Within one year		6,430,202	7,959,810
More than one year, but not exceeding two years		3,954,694	3,528,383
More than two years, but not exceeding five years		3,600,466	5,777,361
More than five years		–	1,890,000
Total borrowings		13,985,362	19,155,554
Less: Amounts due within one year shown under current liabilities		(6,430,202)	(7,959,810)
Amounts due after one year shown under non-current liabilities		7,555,160	11,195,744

Notes:

- (a) Other loans amounting to RMB3,932,504,000 (2018: RMB5,935,163,000) represented loans provided by certain trust companies, some of which are secured by the equity interest of certain subsidiaries of the Company and certain properties and carried interest rate of 8.4% to 13.50% (2018: 5.23% to 13.8%) per annum. The maturity of loan balances as at 31 December 2019 is ranging from 2020 to 2023.

As at 31 December 2019, other loan amounting to RMB800,000,000 (2018: RMB1,000,000,000) represented loan provided by a former joint venture partner and carried interest of 8.63% per annum.

Other loan amounting to RMB250,000,000 (2018: nil) represented loan provided by a joint venture partner of Shenzhen Yushi, which is secured by the equity interest of the joint venture held by the Group and carried interest rate at 12% (2018: nil) per annum. The aforesaid loan as at 31 December 2019 will mature in 2022.

As at 31 December 2018, other loan amounting to RMB1,000,000,000 represented loan provided by a former joint venture partner of Jiaying Fangyan and carried interest of 14% per annum. The amount was fully settled in 2019.

The remaining balance of other loans amounting to RMB965,612,000 (2018: RMB748,203,000) carried interest rate of 2% to 15% (2018: 7.0% to 13.2%) per annum. The loan balances as at 31 December 2019 are due in 2021.

- (b) Certain bank and other loans were secured by properties for sale, investment properties, pledged bank deposits and property, plant and equipment. Details are set out in note 59.

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39. BORROWINGS (continued)

As at 31 December 2018, certain directors of the Company provided joint guarantees to the banks and trust companies for the Group's bank and other borrowings amounting to RMB846,000,000 in aggregate. During the year ended 31 December 2019, the guarantees were released upon the repayment of the aforesaid bank and other borrowings.

The amounts due above are based on scheduled repayment dates set out in the loan agreements. As at 31 December 2019, all borrowings are denominated in RMB except that secured borrowings of RMB943,606,000 are denominated in USD. As at 31 December 2018, all borrowings were denominated in RMB except that secured borrowings of RMB94,139,000 and unsecured borrowings of RMB644,523,000 were denominated in USD.

The exposure of the Group's borrowings is as following:

	2019 RMB'000	2018 RMB'000
Fixed-rate borrowings	8,975,234	9,662,982
Variable-rate borrowings	5,010,128	9,492,572
	13,985,362	19,155,554

The ranges of effective interest rates on the Group's borrowings are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate borrowings	2% to 13.5% per annum	2.38% to 14.00% per annum
Variable-rate borrowings	2.1% to 12.8% per annum	4.75% to 13.84% per annum

40. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	95,181
More than one year but not more than two years	67,790
More than two years but not more than five years	142,308
More than five years	139,117
	444,396
Less: Amount due for settlement within one year shown under current liabilities	(95,181)
Amount due for settlement after one year shown under non-current liabilities	349,215

Lease obligations of the transportation equipment amounting to RMB240,781,000 are denominated in USD, which is the foreign currency of the relevant group entities.

41. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its transportation equipment under finance leases. As at 31 December 2018, the lease term was ranging from 2 years to 6 years for the transportation equipment. Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 4.2% to 5.8% per annum for the transportation equipment.

	Minimum lease payments 31 December 2018 RMB'000	Present value of minimum lease payments 31 December 2018 RMB'000
Amounts payable under finance leases:		
Within one year	82,297	69,164
More than one year but not more than two years	82,269	72,908
More than two years but not more than five years	124,990	110,016
More than five years	56,572	53,956
	346,128	306,044
Less: future finance charge	(40,084)	–
Present value of lease obligations	306,044	306,044
Less: Amount due for settlement within one year shown under current liabilities		(69,164)
Amount due for settlement after one year shown under non-current liabilities		236,880

Finance lease obligations of the transportation equipment are denominated in USD, which is the foreign currency of the relevant group entities. Finance lease obligations of the group are secured by the leased assets.

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42. SENIOR NOTES AND BONDS

Issue date	Notes	Maturity	Principal '000	Nominal interest rate	Effective interest rate	Carrying amount at 2019 RMB'000	2018 RMB'000
Senior notes:							
	(a)						
2013 senior notes due 2020	(b)	7 years	USD250,000	10.75%	11.27%	–	1,788,416
2016 RMB senior notes due 2019	(c)	3 years	RMB1,600,000	9.50%	10.66%	–	1,618,033
2016 USD senior notes due 2021	(d)	5 years	USD500,000	7.38%	7.70%	3,532,229	3,465,913
2017 senior notes due 2022	(e)	5 years	USD300,000	7.95%	8.26%	2,152,845	2,119,621
2018 USD300 million senior notes due 2019	(f)	1 year	USD300,000	7.25%	8.12%	–	2,023,783
2018 USD600 million senior notes due 2021	(g)	3 years	USD600,000	8.38%	9.30%	4,254,418	4,152,553
2018 senior notes due 2020	(h)	2 years	USD100,000	12.00%	12.74%	704,673	689,523
2018 USD140 million senior notes due 2019	(i)	1 year	USD140,000	12.00%	12.96%	–	1,009,001
2018 USD200 million senior notes due 2021	(j)	3 years	USD200,000	15.00%	15.64%	1,388,262	1,359,964
2019 USD100 million senior notes due 2021	(k)	2 years	USD100,000	15.00%	15.51%	695,321	–
2019 RMB senior notes due 2020	(l)	1 year	RMB1,000,000	11.875%	13.00%	1,029,078	–
2019 USD300 million senior notes due 2022	(m)	3 years	USD300,000	11.75%	13.20%	2,068,841	–
2019 USD350 million senior notes due 2022	(n)	3 years	USD350,000	12.25%	13.83%	2,461,610	–
						18,287,277	18,226,807
Corporate bonds:							
Fantasia Bonds							
2015 bonds due 2020	(o)	5 years	RMB2,000,000	7.95%	7.31%	1,988,979	2,000,219
2016 bonds due 2020	(p)	4 years	RMB1,100,000	7.95%	7.42%	1,091,198	1,086,005
2016 RMB3,000 million bonds due 2019	(q)	3 years	RMB3,000,000	8.50% – 9.00%	8.11% – 9.00%	–	1,579,258
2018 bonds due 2021	(r)	3 years	RMB1,000,000	7.50%	7.62%	1,000,883	999,953
2019 RMB800 million bonds due 2022	(s)	3 years	RMB800,000	8.20%	8.27%	830,796	–
2019 RMB730 million bonds due 2022	(t)	3 years	RMB730,000	7.80%	7.84%	734,351	–
						5,795,993	5,980,936
Colour Life Bonds							
2016 RMB100 million bonds due 2019	(u)	3 years	RMB100,000	6.70%	7.91%	–	106,092
2016 RMB300 million bonds due 2019	(v)	3 years	RMB300,000	8.00%	12.86%	–	61,493
2017 bonds due 2020	(w)	3 years	RMB150,000	7.00%	8.40%	149,786	147,916
						24,083,270	24,207,743
Carrying amounts repayable:							
Within one year						4,963,714	6,397,660
More than one year, but not exceeding two years						10,871,113	6,712,032
More than two years, but not exceeding five years						8,248,443	11,098,051
						24,083,270	24,207,743
Less: amounts due within one year shown under current liabilities						(4,963,714)	(6,397,660)
Amounts due after one year shown under non-current liabilities						19,119,556	17,810,083

42. SENIOR NOTES AND BONDS (continued)

Notes:

- (a) The Company issued senior notes on the Singapore Exchange Securities Trading Limited (the “SGX”). The senior notes are guaranteed by certain subsidiaries of the Company and the interests are payable semi-annually in arrears.

- (b) 2013 senior notes due 2020

On 22 January 2013, the Company issued guaranteed senior notes in an aggregate principal amount of USD250,000,000. During the year ended 31 December 2019, the Group redeemed the senior notes in full at a price of USD259,332,000, equivalent to RMB1,824,370,000, resulting in a loss on early redemption of RMB1,325,000 is recognised in profit or loss. Upon completion of the early redemption, the redeemed senior notes were cancelled.

- (c) 2016 RMB senior notes due 2019

In 2016, the Company issued guaranteed senior notes in an aggregate principal amount of RMB1,600,000,000. During the year ended 31 December 2019, the senior notes were repaid upon maturity in 2019. No gain or loss on redemption of senior notes is recognised in profit or loss.

- (d) 2016 USD senior notes due 2021

In 2016, the Company issued guaranteed senior notes of USD500,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum
First	4 October 2016	400,000	100.000%	7.375%	7.70%
Second	29 December 2016	100,000	99.884%	7.375%	7.70%

The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 4 October 2019, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the 12 month period beginning on 4 October of the years indicated below.

Period	Redemption price
4 October 2019 – 3 October 2020	103.688%
4 October 2020 and thereafter	101.844%

- (ii) At any time prior to 4 October 2019, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 4 October 2019 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (iii) At any time and from time to time prior to 4 October 2019, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 107.375% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

For the year ended 31 December 2019

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(e) 2017 senior notes due 2022

On 5 July 2017, the Company issued guaranteed senior notes in an aggregate principal amount of USD300,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 5 July 2020, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the 12 month period beginning on 5 July of the years indicated below.

Period	Redemption price
5 July 2020 – 4 July 2021	103.9750%
5 July 2021 and thereafter	101.9875%

- (ii) At any time prior to 5 July 2020, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 5 July 2020 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (iii) At any time and from time to time prior to 5 July 2020, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 107.95% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

During the year ended 31 December 2019, the Company repurchased the senior notes with the principal amount of USD1,000,000 at a total consideration of USD924,000, equivalent to RMB6,369,000. The gain on repurchase of senior notes of RMB700,000 is recognised in profit or loss. Upon completion of the repurchase, all repurchased senior notes were cancelled.

(f) 2018 USD300 million senior notes due 2019

On 14 February 2018, the Group issued guaranteed senior notes in an aggregate principal amount of USD300,000,000. During the year ended 31 December 2019, the outstanding senior notes with the principal amount of USD287,260,000 were repaid upon maturity in 2019. No gain or loss on redemption of senior notes is recognised in profit or loss.

(g) 2018 USD600 million senior notes due 2021

During the year ended 31 December 2018, the Company issued guaranteed senior notes of USD600,000,000 by three tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum
First	8 March 2018	350,000	100%	8.375%	9.30%
Second	19 March 2018	100,000	100%	8.375%	9.30%
Third	10 May 2018	150,000	96.285%	8.375%	9.30%

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(g) 2018 USD600 million senior notes due 2021 (continued)

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 8 March 2021, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 8 March 2021 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time prior to 8 March 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 108.375% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(h) 2018 senior notes due 2020

On 1 June 2018, the Group issued guaranteed senior notes in aggregate principal amounts of USD100,000,000. In December 2018, the Company offered all of the holders of the senior notes accepted the exchange consideration ("Exchange Offer") to adjust the coupon interest rate from 8.5% per annum to 12.0% per annum and postpone the maturity date from 4 June 2019 to 4 June 2020. The effective interest rate is revised from 10.66% per annum to 12.74% per annum. The loss on modification of senior notes of RMB4,040,000 was recognised in profit or loss at the date of modification.

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 4 June 2020, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum and the exchange offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 4 June 2020 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time prior to 4 June 2020, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of issuance of ordinary shares of the Company in an equity offering at a redemption price of 112.0% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(i) 2018 USD140 million senior notes due 2019

On 16 July 2018, the Group issued guaranteed senior notes in aggregate principal amounts of USD140,000,000. During the year ended 31 December 2019, the senior notes were repaid upon maturity in 2019. No gain or loss on redemption of senior notes is recognised in profit or loss.

For the year ended 31 December 2019

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(j) 2018 USD200 million senior notes due 2021

During the year ended 31 December 2018, the Company issued guaranteed senior notes of USD200,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum
First	13 December 2018	130,000	100%	15%	15.64%
Second	21 December 2018	70,000	100%	15%	15.64%

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 18 December 2021, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 18 December 2021 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time prior to 18 December 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 115.0% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(k) 2019 USD100 million senior notes due 2021

On 31 January 2019, the Company issued guaranteed senior notes in an aggregate principal amount of USD100,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 18 December 2021, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to 100% of principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date.

- (ii) At any time and from time to time prior to 18 December 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 115% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 30 days after the closing of the related equity offering.

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(l) 2019 RMB senior notes due 2020

During the year ended 31 December 2019, the Company issued guaranteed senior notes of RMB1,000,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 11 September 2020, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to 100% of principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date.
- (ii) At any time and from time to time prior to 11 September 2020, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 111.875% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 30 days after the closing of the related equity offering.

(m) 2019 USD300 million senior notes due 2022

During the year ended 31 December 2019, the Company issued guaranteed senior notes of USD300,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum
First	17 April 2019	200,000	100%	11.75%	13.20%
Second	5 August 2019	100,000	100%	11.75%	13.20%

The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 17 April 2021, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to 104.5% of principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed.
- (ii) At any time prior to 17 April 2021, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 17 April 2021 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (iii) At any time and from time to time prior to 17 April 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 111.75% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

During the year ended 31 December 2019, the Company repurchased the senior notes with the principal amount of USD1,500,000 at a total consideration of USD1,492,000, equivalent to RMB10,287,000. The loss on repurchase of senior notes of RMB192,000 is recognised in profit or loss. Upon completion of the repurchase, all repurchased senior notes were cancelled.

For the year ended 31 December 2019

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(n) 2019 USD350 million senior notes due 2022

During the year ended 31 December 2019, the Company issued guaranteed senior notes of USD350,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum
First	18 July 2019	200,000	99.22%	12.25%	13.83%
Second	18 November 2019	150,000	96.42%	12.25%	13.83%

The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 18 July 2021, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to 104.5% of principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed.
- (ii) At any time prior to 18 July 2021, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 18 July 2021 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (iii) At any time and from time to time prior to 18 July 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 112.25% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(o) 2015 bonds due 2020

On 18 September 2015, a wholly-owned subsidiary of the Company, Fantasia Group (China) Co., Ltd. (花樣年集團(中國)有限公司) ("Fantasia China Group") issued domestic corporate bonds of RMB2,000,000,000, which are listed on the Shanghai Stock Exchange ("SSE"). The corporate bonds are unsecured, carry interest at rate of 6.95% per annum and interest is payable annually. The effective interest rate of the senior notes is 7.30% per annum. The corporate bonds will mature on 16 September 2020 unless the holders sell back the bonds to Fantasia China Group earlier.

At the end of the third year subsequent to the inception date, Fantasia China Group as the issuer is entitled to adjust interest rate and the corporate bond holders may at their options to sell back the bonds to Fantasia China Group in whole or in part at face value of their principal amount.

In September 2018, Fantasia China Group adjusted the coupon interest rate from 6.95% per annum to 7.95% per annum and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB43,295,000 to Fantasia China Group. For the remaining corporate bonds of RMB1,956,705,000, the coupon interest rate is adjusted to 7.95% per annum. The effective interest rate is revised from 7.30% per annum to 7.31% per annum. The loss on modification of corporate bonds of RMB12,686,000 was recognised in profit or loss at the date of modification.

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(p) 2016 bonds due 2020

On 4 January 2016, a wholly-owned subsidiary of the Company, Fantasia China Group issued public domestic corporate bonds of RMB1,100,000,000, which are listed on the Shenzhen Stock Exchange ("SZSE"). The corporate bonds are unsecured, carry interest at rate of 7.29% per annum and interest is payable annually. The effective interest rate of the senior notes is approximately 7.46% per annum. The corporate bonds will mature on 31 December 2020 unless the holders sell back the bonds to Fantasia China Group earlier.

At the end of the third year subsequent to the inception date, Fantasia China Group as the issuer is entitled to adjust interest rate and the corporate bond holders may at their options to sell back the bonds to Fantasia China Group in whole or in part at face value of their principal amount.

In December 2018, Fantasia China Group adjusted the coupon interest rate from 7.29% per annum to 7.95% per annum and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB14,008,000 to Fantasia China Group. For the remaining corporate bonds of RMB1,085,992,000, the coupon interest rate is adjusted to 7.95% per annum. The effective interest rate is revised from 7.46% per annum to 7.42% per annum. The loss on modification of corporate bonds of RMB3,582,000 was recognised in profit or loss at the date of modification.

(q) 2016 RMB3,000 million bonds due 2019

During the year ended 31 December 2016, Fantasia China Group issued non-public domestic corporate bonds of RMB3,000,000,000 in aggregation by five tranches detailed as below:

Tranche	Issue date	Maturity date	Coupon interest rate per annum	Principal RMB'000
First tranche	19 May 2016	19 May 2019	7.5%	500,000
Second tranche	15 July 2016	15 July 2019	6.8%	331,000
Third tranche	17 August 2016	17 August 2019	7.2%	1,300,000
Fourth tranche	23 August 2016	23 August 2019	7.3%	300,000
Fifth tranche	7 September 2016	7 September 2019	6.6%	569,000

During the year ended 31 December 2018, Fantasia China Group redeemed the first tranche of corporate bonds with its principal amount of RMB500,000,000 at a price of RMB500,027,000, resulting in a loss on early redemption of RMB3,372,000 was recognised in profit or loss. Upon completion of the redemption, all redeemed corporate bonds were cancelled.

During the year ended 31 December 2018, Fantasia China Group adjusted the coupon interest rates of the second, third, fourth and fifth corporate bonds set forth below and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB970,000,000 to Fantasia China Group. The loss on modification of corporate bonds of RMB24,902,000 was recognised in profit or loss at the date of modification.

Tranche	Original coupon interest rate per annum	Adjusted coupon interest rate per annum	Original effective interest rate per annum	Adjusted effective interest rate per annum	Sell-back portion RMB'000	Remaining portion RMB'000
Second tranche	6.8%	8.5%	7.52%	8.11%	–	331,000
Third tranche	7.2%	8.5%	7.52%	8.11%	950,000	350,000
Fourth tranche	7.3%	9.0%	8.29%	9.00%	10,000	290,000
Fifth tranche	6.6%	9.0%	7.97%	9.00%	10,000	559,000

During the year ended 31 December 2019, the outstanding corporate bonds with its principal amount of RMB1,530,000,000 were repaid upon maturity in 2019. No gain or loss on redemption of senior notes is recognised in profit or loss.

For the year ended 31 December 2019

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(r) 2018 bonds due 2021

On 17 December 2018, Fantasia China Group issued domestic corporate bonds of RMB1,000,000,000. The corporate bonds were issued at 100% of the principal amount and are listed on the SSE. The corporate bonds are unsecured, carry interest at rate of 7.5% per annum and interest is payable annually. The corporate bonds will mature on 17 December 2021 unless the holders sell back the bonds to Fantasia China Group earlier.

At the end of the second year subsequent to the inception date, Fantasia China Group as the issuer is entitled to adjust interest rate and the holders may at their options to sell back the bonds to Fantasia China Group in whole or in part at face value of their principal amount.

(s) 2019 RMB800 million bonds due 2022

On 5 July 2019, Fantasia China Group issued domestic corporate bonds of RMB800,000,000. The corporate bonds were issued at 100% of the principal amount and are listed on the SSE. The corporate bonds are unsecured, carry interest at rate of 8.2% per annum and interest is payable annually. The corporate bonds will mature on 5 July 2022 unless the holders sell back the bonds to Fantasia China Group earlier.

At the end of the second year subsequent to the inception date, Fantasia China Group as the issuer is entitled to adjust interest rate and the holders may at their options to sell back the bonds to Fantasia China Group in whole or in part at face value of their principal amount.

(t) 2019 RMB730 million bonds due 2022

On 29 November 2019, Fantasia China Group issued domestic corporate bonds of RMB730,000,000. The corporate bonds were issued at 99.9% of the principal amount and are listed on the SSE. The corporate bonds are unsecured, carry interest at rate of 7.8% per annum and interest is payable annually. The corporate bonds will mature on 29 November 2022 unless the holders sell back the bonds to Fantasia China Group earlier.

At the end of the second year subsequent to the inception date, Fantasia China Group as the issuer is entitled to adjust interest rate and the holders may at their options to sell back the bonds to Fantasia China Group in whole or in part at face value of their principal amount.

(u) 2016 RMB100 million bonds due 2019

On 29 January 2016, Shenzhen Colour Life Services Group Co., Limited (深圳市彩生活服务集团有限公司) ("Shenzhen Colour Life"), a non-wholly owned subsidiary of the Company, issued first tranche of non-public domestic corporate bonds of RMB100,000,000, which are secured, carry interest at rate of 6.7% per annum and interest is payable annually, commencing on 29 January 2017.

During the year ended 31 December 2019, the corporate bonds were repaid upon maturity in 2019. No gain or loss on redemption of senior notes is recognised in profit or loss.

42. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(v) 2016 RMB300 million bonds due 2019

On 9 September 2016, Shenzhen Colour Life issued non-public domestic corporate bonds of RMB300,000,000, which are secured, carry interest at rate of 7.00% per annum and interest is payable annually, commencing on 9 September 2017 and will mature on 8 September 2019, respectively. The effective interest rate is 8.1% per annum.

At the end of the second year, Shenzhen Colour Life as the issuer is entitled to adjust the interest rate and the holders of corporate bonds of RMB300,000,000 may at their options to sell back the bonds to the Group in whole or in part at face value of their principal amount.

In September 2018, Shenzhen Colour Life adjusted the coupon interest rate from 7.0% per annum to 8.0% per annum and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB240,000,000 to Shenzhen Colour Life. For the remaining corporate bonds of RMB60,000,000, the coupon interest rate is adjusted to 8.0% per annum. The effective interest rate is revised from 8.13% per annum to 12.86% per annum. The loss on modification of corporate bonds of RMB3,140,000 was recognised in profit or loss at the date of modification.

During the year ended 31 December 2019, the corporate bonds were repaid upon maturity in 2019. No gain or loss on redemption of senior notes is recognised in profit or loss.

(w) 2017 bonds due 2020

On 10 November 2017, Shenzhen Colour Life issued non-public domestic corporate bonds in aggregate principal amount of RMB150,000,000. The corporate bonds will mature on 10 November 2020.

The movements of the senior notes and bonds during the year are set out below:

	2019	2018
	RMB'000	RMB'000
At 1 January	24,207,743	19,804,942
Net proceeds on the date of issuance	7,443,309	9,505,647
Exchange loss	350,734	792,533
Interest expenses	2,382,217	1,942,299
Payment of interest	(2,263,028)	(1,630,264)
Extinguishment of bonds upon substantial modification	–	(1,184,799)
Recognition of bonds upon substantial modification	–	1,199,000
Adjustment to carrying amounts of senior notes and bonds upon non-substantial modification	–	34,149
Repayment of senior notes and bonds	(6,197,492)	(4,404,253)
Repurchase/early redemption of senior notes and bonds	(1,840,213)	(1,851,511)
At 31 December	24,083,270	24,207,743

For the year ended 31 December 2019

43. ASSET-BACKED SECURITIES ISSUED

	Notes	2019 RMB'000	2018 RMB'000
Asset-backed securities issued			
2016 ABS	(a)	50,146	174,228
2018 ABS	(b)	54,402	86,191
		104,548	260,419
Carrying amounts repayable:*			
Within one year		70,078	96,666
More than one year, but not exceeding two years		34,470	62,117
More than two years, but not exceeding five years		–	101,636
		104,548	260,419
Classified as:			
Current			
Carrying amounts with put options exercisable within one year		37,520	130,685
Carrying amounts without put options and repayable within one year		49,963	77,951
		87,483	208,636
Non-current			
		17,065	51,783
		104,548	260,419

* The amounts due are based on scheduled repayment dates set out in the agreements of asset-backed securities issued.

Notes:

- (a) In August 2016, Shenzhen Colour Life issued asset-backed securities (“2016 ABS”) under securitisation arrangements collateralised by the future earnings relating to property management fee and guaranteed by Fantasia China Group. The 2016 ABS were issued at discount of 5.0% with aggregate nominal value of RMB300,000,000 which carry interests ranging from 4.5% to 6.1% per annum. Under the securitisation arrangement, the principal and interests are payable quarterly and with maturity from November 2016 to August 2021. The effective interest rates ranges from 6.9% to 8.3% per annum.

For certain portion of 2016 ABS amounting to RMB135,000,000, Shenzhen Colour Life as the issuer is entitled to adjust the interest rate and the holders of 2016 ABS may at their options to sell back the 2016 ABS to the Group in whole or in part at face value of their principal amount in August 2019. Therefore, the carrying amount of 2016 ABS amounting to RMB130,685,000 are classified as current liabilities as at 31 December 2018.

In August 2019, the Group repurchased the 2016 ABS with the principal amount of RMB66,541,000 at a total consideration of RMB75,032,000. The loss on repurchase of RMB3,520,000 is recognised in profit or loss.

In August 2019, Shenzhen Colour Life adjusted the nominal interest rates of two tranches of 2016 ABS from both 6.1% per annum to 7% per annum and 7.2% per annum, respectively, and no holders of 2016 ABS exercised the put options. The related loss of modification of RMB1,380,000 is recognised in profit or loss.

43. ASSET-BACKED SECURITIES ISSUED (continued)

Notes: (continued)

- (b) In January 2018, Shenzhen Colour Life issued the asset-backed securities ("2018 ABS") under securitisation arrangements collateralised by the future earnings relating to property management fee and guaranteed by Fantasia China Group. The 2018 ABS were issued at discount of 1.8% with aggregate nominal value of RMB100,000,000 which carry interests ranging from 6.5% to 7.3% per annum. Under the securitisation arrangement, the principal and interests are payable semi-annually and with maturity from January 2019 to January 2021. The effective interest rates ranges from 6.9% to 7.5% per annum.

For certain portion of 2018 ABS amounting to RMB36,000,000, Shenzhen Colour Life as the issuer is entitled to adjust the interest rate and the holders of 2018 ABS may at their options to sell back the 2018 ABS to the Group in whole or in part at face value of their principal amount in January 2020. The directors considered that the fair value of the put options is insignificant on initial recognition and 31 December 2019 and 2018. Therefore, the carrying amount of 2016 ABS amounting to RMB37,520,000 are classified as current liabilities as at 31 December 2019. In January 2020, Shenzhen Colour Life announced that it did not make any adjustment to the nominal interest rate and all the holders of 2018 ABS exercised the put options and Shenzhen Colour Life redeemed the 2018 ABS with the principal amount of RMB36,000,000 in full.

The movement of the asset-backed securities issued during the year is set out below:

	2019	2018
	RMB'000	RMB'000
At 1 January	260,419	227,737
Net proceeds on the date of issuance of asset-backed securities issued	–	98,236
Effective interest recognised	20,861	22,083
Repayment of principal	(85,750)	(71,250)
Repurchase of 2016 ABS	(71,512)	–
Interest paid	(20,850)	(16,387)
Adjustment to carrying amounts upon non-substantial modification	1,380	–
At 31 December	104,548	260,419

44. PROVISIONS

	2019	2018
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current liabilities	37,440	30,740

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44. PROVISIONS (continued)

	Properties provision RMB'000	Warranty provision RMB'000	Total RMB'000
	(note a)	(note b)	
At 1 January 2019	20,491	10,249	30,740
Addition of provision	10,693	13,663	24,356
Utilisation of provision	–	(17,656)	(17,656)
At 31 December 2019	31,184	6,256	37,440

Notes:

- (a) In 2013, the Group acquired Shenzhen Tengxing Hongda Investment Development Co., Ltd. (深圳騰星宏達投資發展有限公司) (“Shenzhen Tengxing”) from an independent third party. Pursuant to the sales and purchase agreement, the Group agreed with the former equity holder of Shenzhen Tengxing that after the property project construction completed by the Group, the Group is required to transfer 5% of the completed property of this property project to the former shareholder of Shenzhen Tengxing. The cost incurred for construction of this 5% completed property is accounted for as a provision. The property project construction was completed on 31 December 2019 and under the handover process with the former shareholder as at 31 December 2019.
- (b) The provision represented the warranty provision granted on fuel pumps, which is the management’s best estimate of the Group’s liability under one year warranty granted on fuel pumps, based on prior experience and industry averages for defective products.

45. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 Assets RMB'000	2019 Liabilities RMB'000	2018 Assets RMB'000	2018 Liabilities RMB'000
Derivative financial instruments (under hedge accounting)				
Cash flow hedge				
– Foreign currency option contracts	–	4,289	–	–
– Foreign currency forward contracts	1,241	28,415	–	–
	1,241	32,704	–	–
Classified as:				
Current	1,241	13,759	–	–
Non-current	–	18,945	–	–
	1,241	32,704	–	–

At the end of the reporting period, the Group had foreign currency forward contracts and foreign currency option contracts designated as effective hedging instruments in order to minimise its exposures to foreign currency risk on its fixed rate USD senior notes.

45. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The terms of the foreign currency forward contracts and the foreign currency option contracts have been negotiated to match the terms of the respective designated hedged items and the directors of the Company consider that the foreign currency forward contracts and foreign currency option contracts are highly effective hedging instruments. The major terms of these contracts are as follows:

Accumulated notional amounts USD'000	Maturity	Strike rates (USD:RMB)	Cap rates (USD:RMB)	Floor rates (USD:RMB)
<i>Foreign currency option contracts</i>				
70,000	2021	6.97 – 7.07	7.29 – 7.4	N/A
<i>Foreign currency forward contracts</i>				
150,000	2020	6.91 – 7.13	7.2 – 7.4	5.5 or 6.0
180,000	2021	6.98 – 7.15	7.18 – 7.4	5.5

46. SHARE CAPITAL

	Number of shares	Amount HK\$	Equivalent to RMB'000
Ordinary shares of HK0.1 each			
Authorised:			
At 1 January 2018, 31 December 2018 and 2019	8,000,000,000	800,000,000	704,008
Issued and fully paid:			
At 1 January 2018	5,762,022,224	576,202,222	497,868
Issue of shares upon exercise of share options (note a)	921,680	92,168	77
At 31 December 2018	5,762,943,904	576,294,390	497,945
Issue of shares upon exercise of share options (note b)	4,726,400	472,640	414
At 31 December 2019	5,767,670,304	576,767,030	498,359

Notes:

- (a) During the year ended 31 December 2018, the Company issued 921,680 ordinary shares of HKD0.10 each upon exercise of share options at a total consideration of RMB665,000 in aggregate. The exercise price of the share options during the year was HKD0.836 per share. The new ordinary shares rank pari passu with the then existing shares in all respects.
- (b) During the year ended 31 December 2019, the Company issued 4,726,400 ordinary shares of HKD0.10 each upon exercise of share options at a total consideration of RMB3,408,000 in aggregate. The exercise price of the share options during the year ranging from HKD0.8 to HKD0.836 per share. The new ordinary shares rank pari passu with the then existing shares in all respects.

For the year ended 31 December 2019

47. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries

For the year ended 31 December 2018

Name of subsidiaries acquired	Place of establishment/ incorporation	Acquisition date	Equity interest acquired	Equity interest held by the Group after acquisition	Consideration RMB'000
鄂州鑫港置業有限公司 Ezhou Xingang Real Estate Co., Ltd. ("Ezhou Xingang") (note i)	PRC	28 February 2018	100%	100%	364,436
南京星潤置業有限公司 Nanjing Xingrun Real Estate Co., Ltd. ("Nanjing Xingrun") (note i)	PRC	28 February 2018	100%	100%	266,100
武漢欣城開實業有限公司 Wuhan Xinchengkai Real Estate Co., Ltd. ("Wuhan Xinchengkai") (note i)	PRC	30 April 2018	90%	90%	30,000
唐山金盛房地產開發有限公司 Tangshan Jinsheng Real Estate Co., Ltd. ("Tangshan Jinsheng") (note i)	PRC	31 May 2018	51%	51%	43,000
寧波杭州灣新區民恒房地產開發有限公司 Ningbo Hangzhou New District Minheng Real Estate Co., Ltd. ("Ningbo Minheng") (note i)	PRC	31 July 2018	90%	90%	297,000
深圳前海嘉年鼎盛投資管理有限公司 Shenzhen Qianhai Jianian Dingsheng Investment Management Co., Ltd. ("Jianian Dingsheng") (note ii)	PRC	31 August 2018	2%	51%	15,893
Jiaxing Fangyan (note iii)	PRC	31 August 2018	–	100%	–

47. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2018 (continued)

Notes:

- (i) Ezhou Xingang, Nanjing Xingrun, Wuhan Xinchengkai, Tangshan Jinsheng and Ningbo Minheng are engaging in property development in the PRC and the major assets of them are investment properties, the undeveloped land for future property development or land with minimal construction work performed. The acquisitions were accounted for as purchase of assets and liabilities that does not constitute business combinations.
- (ii) Upon the completion of capital injection amounting to RMB15,893,000 by the Group during the year ended 31 December 2018, the Group holds 51% equity interests in Jianian Dingsheng and is able to exercise control over Jianian Dingsheng. Jianian Dingsheng and its subsidiaries hold a property project located in Sichuan which has started to pre-sale the properties and significant processes are applied to the property project. At the time of acquisition, the directors of the Company are of the view that the acquisition of Jianian Dingsheng constitutes a business combination.
- (iii) During the year ended 31 December 2018, the Group entered into a supplemental partnership agreement with the investment partner, regarding the revision of the cooperation agreement of Jiaxing Fangyan. Pursuant to the supplemental partnership agreement, the Group has effective control over Jiaxing Fangyan, which became a wholly-owned subsidiary of the Company. The major asset held by Jiaxing Fangyan is the Debt Instrument as detailed in note 20. The acquisitions are accounted for as purchase of assets and liabilities that does not constitute a business combination.

Assets acquired and liabilities recognised at the dates of acquisition are as follows:

	Acquisition of Jianian Dingsheng under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Net assets acquired			
Property, plant and equipment	295,700	–	295,700
Investment properties	–	109,981	109,981
Prepaid lease payments	19,234	–	19,234
Financial assets at FVTPL (note)	–	1,100,000	1,100,000
Properties under development for sale	4,356,701	2,268,013	6,624,714
Amounts due from certain subsidiaries of the Company	236,033	–	236,033
Trade and other receivables	684,133	979	685,112
Tax recoverable	34,025	–	34,025
Bank balances and cash	476,100	24,834	500,934
Trade and other payables	(464,466)	(71,355)	(535,821)
Contract liabilities	(980,773)	–	(980,773)
Amounts due to certain subsidiaries of the Company	(1,127,290)	(1,302,363)	(2,429,653)
Borrowings	(2,734,730)	(1,000,000)	(3,734,730)
	794,667	1,130,089	1,924,756

Note: As at the date of acquisition during the year ended 31 December 2018, the fair value of financial assets at FVTPL acquired was estimated by an independent valuer through application of probability weighted expected return model, details of which are set out in note 20.

For the year ended 31 December 2019

47. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2018 (continued)

For acquisition of Jianian Dingsheng under business combination, at the dates of acquisitions during the year ended 31 December 2018, the trade and other receivables (including amounts due from certain subsidiaries of the Company) acquired with a fair value of RMB920,166,000 approximate its gross contractual amount, with no significant contractual cash flows not expected to be collected.

Acquisition-related costs were insignificant and have been excluded from the cost of acquisition and were recognised as an expense in the year incurred within the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

	Acquisition of Jianian Dingsheng under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Total consideration satisfied by:			
Cash	–	184,100	184,100
Capital injected by the Group	15,893	–	15,893
Deposits paid in prior years	–	575,000	575,000
Consideration payables due within one year included in trade and other payables	–	241,436	241,436
	15,893	1,000,536	1,016,429
Add: Non-controlling interests	389,387	29,553	418,940
Fair value of the Group's previously held equity instruments designated at FVTOCI			
– Jiaxing Fangyan	–	100,000	100,000
Fair value of the Group's previously held equity interests in joint ventures			
– Jianian Dingsheng	389,387	–	389,387
	794,667	1,130,089	1,924,756

47. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2018 (continued)

The fair value of the Group's previously held equity interests in Jianian Dingsheng is estimated by an independent valuer through application of income approach and the key inputs of the valuation are the gross development value on completion basis, construction costs to completion and the discount rates. The difference between the fair value and the carrying amount of the Group's previously held interests in joint ventures amounting to RMB384,487,000 was recognised as gain on remeasurement during the year ended 31 December 2018.

	Acquisition of Jianian Dingsheng under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Net cash inflow (outflow) arising on acquisitions			
Cash consideration paid in current year	–	(184,100)	(184,100)
Capital injected by the Group	(15,893)	–	(15,893)
Bank balances and cash acquired	476,100	24,834	500,934
	460,207	(159,266)	300,941

(b) Acquisition of property operation businesses

For the year ended 31 December 2019

During the year ended 31 December 2019, the Group acquired the following companies at a total consideration of RMB101,428,000. At the time of acquisition, the directors of the Company are of the view that the acquisition constitutes businesses combination. The transactions have been accounted for using the purchase method accordingly. The aforesaid subsidiaries were acquired so as to continue the expansion of the Group's property operation services.

Name of subsidiaries acquired	Consideration RMB'000	Acquisition date	Equity interest acquired	Principal activities
北京達爾文國際酒店物業管理有限公司 Beijing Darwin International Hotel Property Management Co., Ltd. ("Beijing Darwin")	97,920	31 March 2019	51%	Provision of property operation services
深圳市閑閑科技有限公司 Shenzhen Xianxian Technology Co., Ltd.	1,808	31 March 2019	72%	Provision of property operation services
泰安市好生活物業管理有限公司 Taian Good Living Property Management Co., Ltd.	1,700	30 September 2019	60%	Provision of property operation services

For the year ended 31 December 2019

47. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2019 (continued)

Total consideration transferred

	Beijing Darwin RMB'000	Others RMB'000	Total RMB'000
Cash	23,618	988	24,606
Deposits paid in prior years	59,168	1,500	60,668
Consideration payables due within one year included in trade and other payables	15,134	1,020	16,154
	97,920	3,508	101,428

Acquisition-related costs were insignificant and have been recognised as an expense in the current year and included in the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the dates of acquisition are as follows:

	Beijing Darwin RMB'000	Others RMB'000	Total RMB'000
Property, plant and equipment	383	15	398
Intangible assets	82,400	1,472	83,872
Interest in an associate	842	–	842
Trade and other receivables	12,093	2,880	14,973
Bank balances and cash	31,235	325	31,560
Contract liabilities	(18,644)	–	(18,644)
Trade and other payables	(25,909)	(3,069)	(28,978)
Deferred tax liabilities	(20,600)	(368)	(20,968)
	61,800	1,255	63,055

As at the date of acquisitions during the year ended 31 December 2019, the trade and other receivables acquired with a fair value of RMB14,973,000 approximate its gross contractual amount, with no significant contractual cash flows not expected to be collected.

47. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2019 (continued)

The fair value of intangible assets acquired in business combination as at the date of acquisitions is estimated by an independent valuer through application of income approach. This approach estimates the future economic benefits and costs attributed to the property management contracts and the customer relationship of the acquirees. The economic benefits and related costs are in turn projected over the expected survival period, taking into consideration of the attrition rate, the growth rate and the discount rate.

Goodwill arising on acquisitions

	Beijing Darwin RMB'000	Others RMB'000	Total RMB'000
Consideration transferred	97,920	3,508	101,428
Add: Non-controlling interests	30,282	543	30,825
Less: Fair value of net identifiable assets acquired	(61,800)	(1,255)	(63,055)
	66,402	2,796	69,198

At the acquisition dates during the year ended 31 December 2019, the non-controlling interests arising from the acquisition of non-wholly owned subsidiaries were measured by reference to the proportionate share of the fair value of the acquiree's net identifiable assets/liabilities amounting to RMB30,825,000.

Goodwill was arisen on the acquisitions of subsidiaries during the years ended 31 December 2019, because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of the business.

As at the date of acquisitions during the year ended 31 December 2019, intangible assets of RMB83,872,000 in relation to the acquisition of subsidiaries under property management services segment have been recognised by the Group.

None of the goodwill arising on the acquisitions are expected to be deductible for tax purposes.

Net cash inflow arising on acquisitions

	RMB'000
Cash consideration paid	(24,606)
Less: bank balances and cash acquired	31,560
	6,954

For the year ended 31 December 2019

47. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2018

During the year ended 31 December 2018, the Group acquired the following companies at a total consideration of RMB51,877,000. At the time of acquisition, the directors of the Company are of the view that the acquisition constitutes businesses combination. The transactions have been accounted for using the purchase method accordingly. The aforesaid subsidiaries were acquired so as to continue the expansion of the Group's property operation services.

Name of subsidiaries acquired	Consideration RMB'000	Acquisition date	Equity interest acquired	Principal activities
泗陽嘉華物業管理有限公司 Siyang Jiahua Property Management Co., Ltd.	2,580	31 March 2018	80%	Provision of property operation services
江蘇志遠物業服務有限公司 Jiangsu Zhiyuan Property Services Co., Ltd.	3,009	31 March 2018	85%	Provision of property operation services
杭州卓盛物業管理有限公司 Hangzhou Zhuosheng Property Management Co., Ltd.	33,988	31 December 2018	80%	Provision of property operation services
柳州市中實物業服務有限責任公司 Liuzhou Zhongshi Property Services Co., Ltd.	11,000	31 December 2018	90%	Provision of property operation services
宿遷中尚物業管理有限公司 Suqian Zhongshang Property Management Co., Ltd.	1,300	31 December 2018	90%	Provision of property operation services

47. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2018 (continued)

Total consideration transferred

	RMB'000
Cash	130
Deposits paid in prior years	51,747
	51,877

Acquisition-related costs were insignificant and have been recognised as an expense in the current year and included in the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the dates of acquisition are as follows:

	RMB'000
Property, plant and equipment	2,100
Intangible assets	8,920
Trade and other receivables	60,358
Bank balances and cash	8,474
Trade and other payables	(53,195)
Contract liabilities	(12,380)
Amounts due to certain subsidiaries of the Company	(1,760)
Amounts due to non-controlling shareholders of the subsidiaries of the Company	(4,243)
Tax liabilities	(756)
Deferred tax liabilities	(2,230)
	5,288

As at the date of acquisitions during the year ended 31 December 2018, the trade and other receivables acquired with a fair value of RMB60,358,000 approximate its gross contractual amount, with no significant contractual cash flows not expected to be collected.

The fair value of intangible assets acquired in business combination as at the date of acquisitions is estimated by an independent valuer through application of income approach. This approach estimates the future economic benefits and costs attributed to the property management contracts and the customer relationship of the acquirees. The economic benefits and related costs are in turn projected over the expected survival period, taking into consideration of the attrition rate, the growth rate and the discount rate.

For the year ended 31 December 2019

47. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2018 (continued)

Goodwill arising on acquisitions

	RMB'000
Consideration transferred	51,877
Add: Non-controlling interests	207
Less: Fair value of net identifiable assets acquired	(5,288)
	<u>46,796</u>

At the acquisition dates during the year ended 31 December 2018, the non-controlling interests arising from the acquisition of non-wholly owned subsidiaries were measured by reference to the proportionate share of the fair value of the acquiree's net identifiable assets/liabilities amounting to RMB207,000.

As at the date of acquisitions during the year ended 31 December 2018, intangible assets of RMB8,920,000 in relation to the acquisition of subsidiaries under property management services segment have been recognised by the Group.

None of the goodwill arising on the acquisitions are expected to be deductible for tax purposes.

Net cash inflow arising on acquisitions

	RMB'000
Cash consideration paid	(130)
Less: bank balances and cash acquired	8,474
	<u>8,344</u>

48. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiaries

For the year ended 31 December 2019

- (i) During the year ended 31 December 2019, the Group disposed of its 51% equity interests in Tangshan Jinsheng Real Estate Co., Ltd. (唐山金盛房地產開發有限公司) which is engaged in property development in the PRC, through the disposal of its 100% equity in Beijing Fantasia Real Estate Co., Ltd. (北京市花樣年房地產開發有限公司), to an independent third party for a consideration of RMB85,750,000.
- (ii) During the year ended 31 December 2019, the Group disposed of its 67% equity interests in Wuhan Jialun Chengtai Commercial Co., Ltd. (武漢市嘉倫誠泰商貿有限公司) which is engaged in property development in the PRC, to an independent third party for a consideration of RMB33,835,000.

For the year ended 31 December 2018

- (i) During the year ended 31 December 2018, the Group disposed of its 100% equity interests in Jiangxi Yinsheng Real Estate Co., Ltd. (江西銀盛房地產開發有限公司) which is engaged in property development in the PRC, to an independent third party for a consideration of RMB10,000,000.
- (ii) During the year ended 31 December 2018, the Group disposed of its 100% equity interests in Chengdu Yuzhan Xiangyue Industrial Co., Ltd. (成都禦棧香悅實業有限公司) which is engaged in hotel operation, to an independent third party for a consideration of RMB99,079,000.
- (iii) During the year ended 31 December 2018, the Group disposed of its 61% equity interest in Shenzhen Feigao Zhizhuo Industrial Co., Ltd. (深圳市飛高至卓實業有限公司) which is engaged in property development in the PRC, to an independent third party for a consideration of RMB884,500,000.
- (iv) In December 2018, the Group disposed of its entire equity interests in Foshan Colour Life Property Management Co., Ltd. (佛山市彩生活物業管理有限公司) which is engaged in provision of property management services in the PRC, to an independent third party for a consideration of RMB60,000,000.
- (v) In December 2018, the Group disposed of its entire equity interests in Heyuan Colour Life Property Management Co., Ltd. (河源彩生活物業管理有限公司) which is engaged in provision of property management services in the PRC, to an independent third party for a consideration of RMB22,000,000.
- (vi) In December 2018, the Group disposed of its entire equity interests in Changsha Xiangwang Property Management Co., Ltd. (長沙祥旺物業管理有限公司) which is engaged in provision of property management services in the PRC, to an independent third party for a consideration of RMB500,000.

For the year ended 31 December 2019

48. DISPOSAL OF SUBSIDIARIES (continued)

(a) Disposal of subsidiaries (continued)

The above transactions are accounted for as disposal of subsidiaries. Details of the net assets disposed of in respect of these transactions are summarised below:

	2019 RMB'000	2018 RMB'000
Analysis of assets and liabilities over which control was lost:		
Property, plant and equipment	4,009	74,986
Equity instrument designated at FVTOCI	–	1,300
Goodwill	–	6,831
Trade and other receivables	24,297	59,972
Properties for sale	524,426	438,703
Tax recoverable	–	10,897
Amounts due from certain subsidiaries of the Company	–	22,386
Bank balances and cash	6,290	18,349
Trade and other payables	(53,350)	(64,290)
Contract liabilities	–	(224,718)
Borrowings	(220,000)	–
Amounts due to certain subsidiaries of the Company	(167,768)	(24,442)
Net assets disposed of	117,904	319,974
Gain on disposal of subsidiaries:		
Cash consideration	115,750	1,044,079
Consideration receivables	3,835	32,000
	119,585	1,076,079
Add: non-controlling interest	14,035	70,233
Less: net assets disposed of	(117,904)	(319,974)
	15,716	826,338
Net cash inflow arising on disposal:		
Cash consideration	115,750	1,044,079
Bank balances and cash disposed of	(6,290)	(18,349)
	109,460	1,025,730

48. DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal of partial interests in subsidiaries without loss of control

For the year ended 31 December 2019

- (i) During the year ended 31 December 2019, an independent investor injected capital in the form of registered capital amounting to RMB4,500,000 to Sichuan Danxing Commercial Co., Ltd. (四川互興商貿有限公司) (“Sichuan Danxing”), a wholly owned subsidiary of the Company, resulting in the dilution of the Group’s equity interest in Sichuan Danxing from 100% to 91%. The Group still have control over the relevant activities of Sichuan Danxing after the partial disposal. The difference of RMB1,000 between the capital injected by the independent investor and the attributable equity interest in Sichuan Danxing disposed after taking into account of the relevant attributable accumulated profit of Sichuan Danxing amounting to RMB2,830,000 was credited to special reserve. Sichuan Danxing is engaged in property development in the PRC. As at 31 December 2019, the capital was fully injected to Sichuan Danxing.
- (ii) During the year ended 31 December 2019, the Group disposed of its 45% equity interest in Wuhan Xinchengkai Industrial Co., Ltd. (武漢欣誠開實業有限公司) (“Wuhan Xinchengkai”), to an independent third party, for a cash consideration of RMB2,250,000. The Group retained 55% equity interest in Wuhan Xinchengkai and still have control over the relevant activities of Wuhan Xinchengkai after the partial disposal. The difference of RMB2,250,000 between the consideration received and the proportionate share of the net assets of Wuhan Xinchengkai by the non-controlling shareholder after taking into account of the relevant attributable accumulated profit of Wuhan Xinchengkai amounting to RMB10,180,000 was credited to special reserve. Wuhan Xinchengkai is engaged in property development in the PRC. As at 31 December 2019, the consideration was fully settled.
- (iii) During the year ended 31 December 2019, Colour Life issued 87,246,000 new ordinary shares at subscription price of HKD5.22 per share to two independent shareholders at a total consideration of RMB435,343,000. The Group’s percentage of equity interest in Colour Life was diluted from 55.35% to 51.69% upon completion of the issuance of shares. The difference of RMB167,359,000 between the additional share of net assets of Colour Life by non-controlling shareholders and the net proceeds received by Colour Life on placement of new shares after taking into account of the relevant attributable accumulated profits of Colour Life amounting to RMB57,693,000, was credited to special reserve.

For the year ended 31 December 2018

During the year ended 31 December 2018, the Group transferred its 100% beneficially interest in Wanxiangmei Property Management Co., Ltd. (萬象美物業管理有限公司) and its subsidiaries (collectively referred to as the “Wanxiangmei Group”), which are principally engaged in provision of property management services in the PRC, to Colour Life, a non-wholly owned subsidiary of the Company (the “Transaction”). The consideration of the Transaction included the cash consideration of RMB1,014,174,000 and the issue of 231,500,000 ordinary shares of Colour Life to the Company. The Group’s percentage of equity interest in Colour Life was increased from 46.53% to 55.95% upon completion of the Transaction. The Transaction involved deemed disposal of partial interests in Wanxiangmei Group without loss of control and the acquisition of additional interests in Colour Life. Upon the completion of the Transaction in March 2018, the difference of RMB185,493,000 between the dilution of interests in Wanxiangmei Group held by the Company and the additional share of the net assets of Colour Life after adjusting for the relevant attributable accumulated profits of Colour Life, was debited to the special reserve.

For the year ended 31 December 2019

48. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of partial interests in subsidiaries resulting in loss of control

For the year ended 31 December 2019

- (i) In June 2019, an independent investor injected capital in the form of registered capital amounting to RMB10,000,000 to Wuhan Xiangyun Jinrui Property Development Co., Ltd. (武漢祥雲錦瑞房地產開發有限公司) (“Wuhan Xiangyun”). After the capital injection, the equity interests, profit sharing and voting rights held by the Group was diluted from 100% to 50%. As all of the strategic financial and operating decisions required approval by unanimous consent of the Group and the independent investor, the remaining 50% equity interest in Wuhan Xiangyun was classified as interest in a joint venture. Wuhan Xiangyun holds a parcel of land located in Wuhan, the PRC and is engaged in property development of the aforesaid land.
- (ii) In August 2019, the Group entered into a series of investment agreements with an independent investor regarding the equity investment in Shenzhen Yushi. Upon completion of the investment, the beneficial interests, profit sharing and voting rights held by the Group was diluted from 100% to 51%. The total equity investment received or receivable from the independent investor of RMB1,108,153,000 of which RMB428,589,000 was settled by the independent investor before 31 December 2019 and the remaining balance of RMB679,564,000 will be settled within five years. The fair value of the outstanding balance at 31 December 2019 is determined to be RMB479,823,000 at an effective interest rate of 9.28% per annum. As all of the strategic financial and operating decisions required approval by unanimous consent of the Group and the independent investor, the remaining 51% equity interest in Shenzhen Yushi was classified as interest in a joint venture. Shenzhen Yushi holds a parcel of land located in Shenzhen, the PRC and is engaged in property development of the aforesaid land.
- (iii) In October 2019, an independent investor injected capital in the form of registered capital amounting to RMB320,000,000 to Shenzhen Fantasia. After the capital injection, the equity interests, profit sharing and voting rights held by the Group was diluted from 100% to 50%. As all of the strategic financial and operating decisions required approval by unanimous consent of the Group and the independent investor, the remaining 50% equity interest in Shenzhen Fantasia was classified as interest in a joint venture. Shenzhen Fantasia holds a parcel of land located in Shenzhen, the PRC and is engaged in property development of the aforesaid land.

For the year ended 31 December 2018

In January 2018, the Group and an independent investor (“Investor”) have agreed, in written, that the Investor will acquire 64.30% equity interest in Beijing Yaxinke on the condition that the Group has obtained 64.30% shareholding in Beijing Yaxinke. The agreement for the acquisition of Beijing Yaxinke was entered into by the Group and the Investor in August 2018. The total payment settled by the Investor is RMB2,198,000,000 which included (1) RMB500,000,000 returned to the Group for the capital injection to Beijing Yaxinke which represents 40.36% equity interest in Beijing Yaxinke; (2) RMB460,020,000 returned to the Group for the acquisition of the 23.94% equity interest in Beijing Yaxinke and (3) RMB1,237,980,000 paid to the Group for the acquisition of shareholder’s loans owed by Beijing Yaxinke to the Group. Upon completion of the acquisition in August 2018, the Group’s shareholding in Beijing Yaxinke was diluted from 59.85% to 35.69% and the Investor holds 64.30% equity interests in Beijing Yaxinke in aggregate. In accordance with the amended Article and Association, the board of directors of Beijing Yaxinke, the governing body which directs the relevant activities that significantly affect the returns of Beijing Yaxinke, consists of seven directors of which the Group and the Investor can appoint four directors and three directors, respectively, and the approval of relevant activities of Beijing Yaxinke require two third of directors’ votes, therefore, Beijing Yaxinke is jointly controlled by the Group and classified as interest in a joint venture. Beijing Yaxinke hold a parcels of land located in Beijing and a manufacturing plant located in Tianjin in the PRC.

48. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of partial interests in subsidiaries resulting in loss of control (continued)

Assets and liabilities derecognised at dates of loss of control of the disposed subsidiaries were as follows:

	2019 RMB'000	2018 RMB'000
Assets and liabilities disposed at the date of loss of control of the disposed subsidiaries are as follows:		
Premium on prepaid lease payments	–	811,101
Prepaid lease payments	–	41,044
Property, plant and equipment	197	317,693
Properties under development for sale	4,337,645	–
Trade and other receivables	322,977	797,757
Amounts due from certain subsidiaries of the Company	54,830	–
Bank balances and cash	529,069	–
Trade and other payables	(696,089)	(389,189)
Amounts due to certain subsidiaries of the Company	(1,859,948)	(1,285,788)
Borrowings	(2,400,000)	–
Deferred tax liabilities	–	(298,897)
	288,681	(6,279)
Gain on remeasurment and disposal of subsidiaries:		
Cash received during the year	428,589	1,237,980
Consideration receivables	479,823	–
Total considerations	908,412	1,237,980
Non-controlling interest	–	151,850
Fair value of retained equity interests in joint ventures		
– Shenzhen Yushi	953,876	–
– Shenzhen Fantasia	335,328	–
– Wuhan Xiangyun	10,000	–
– Beijing Yaxinke	–	721,652
	1,299,204	721,652
	2,207,616	2,111,482
Less: Net (assets) liabilities disposed of	(288,681)	6,279
Assignment of shareholder's loans owed by Beijing Yaxinke to the Investor	–	(1,285,788)
	1,918,935	831,973

For the year ended 31 December 2019

48. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of partial interests in subsidiaries resulting in loss of control (continued)

	2019 RMB'000	2018 RMB'000
Classified as:		
Gain on remeasurement included in other gains and losses	989,748	384,487
Gain on disposal of subsidiaries	929,187	447,486
	1,918,935	831,973
Net cash (outflow) inflow arising on disposal:		
Cash consideration	428,589	1,237,980
Bank balances and cash disposed of	(529,069)	–
	(100,480)	1,237,980

49. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Amounts due to related parties RMB'000 (note 38)	Borrowings RMB'000 (note 39)	Lease liabilities/ obligation under finance leases RMB'000 (note 40 and 41)	Senior notes and bonds RMB'000 (note 42)	Asset- backed securities issued RMB'000 (note 43)	Dividend payables RMB'000	Total RMB'000
At 1 January 2019 (Adjusted)	356,189	19,155,554	379,281	24,207,743	260,419	–	44,359,186
Financing cash flows	487,664	(2,659,574)	(81,358)	(595,213)	(160,782)	(422,770)	(3,432,033)
Interest paid	–	(1,294,709)	(35,745)	(2,263,028)	(20,850)	–	(3,614,332)
Finance cost incurred during the year (note 9)	–	1,294,709	35,745	2,382,217	20,861	–	3,733,532
Inception of leases	–	–	146,473	–	–	–	146,473
Disposal of subsidiaries (note 48)	–	(2,620,000)	–	–	–	–	(2,620,000)
Loss on repurchase, early redemption and modification of senior notes and bonds and asset-backed securities issued	–	–	–	817	4,900	–	5,717
Foreign exchange	–	109,382	–	350,734	–	–	460,116
Dividend declared to shareholders of the Company (note 13)	–	–	–	–	–	195,940	195,940
Dividend declared to non-controlling shareholders of the subsidiaries	–	–	–	–	–	226,830	226,830
At 31 December 2019	843,853	13,985,362	444,396	24,083,270	104,548	–	39,461,429
At 1 January 2018	27,756	9,863,645	310,992	19,804,942	227,737	–	30,235,072
Financing cash flows	328,433	5,424,135	(68,178)	3,248,908	26,986	(427,768)	8,532,516
Interest paid	–	(1,221,870)	–	(1,630,264)	(16,387)	–	(2,868,521)
Finance cost incurred during the year (note 9)	–	1,221,870	15,631	1,942,299	22,083	–	3,201,883
Inception of finance leases	–	–	43,678	–	–	–	43,678
Acquisition of subsidiaries (note 47)	–	3,734,730	–	–	–	–	3,734,730
Loss on repurchase, early redemption and modification of senior notes and bonds	–	–	–	49,325	–	–	49,325
Foreign exchange	–	133,044	3,921	792,533	–	–	929,498
Dividend declared to shareholders of the Company (note 13)	–	–	–	–	–	329,217	329,217
Dividend declared to non-controlling shareholders of the subsidiaries	–	–	–	–	–	98,551	98,551
At 31 December 2018	356,189	19,155,554	306,044	24,207,743	260,419	–	44,285,949

For the year ended 31 December 2019

50. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes amounts due to joint ventures, associates, non-controlling shareholders of the subsidiaries of the Company and related parties as disclosed in note 38, borrowings as disclosed in note 39, lease liabilities as disclosed in note 40, obligations under finance leases as disclosed in note 41, senior notes and bonds as disclosed in note 42, asset-backed securities issued as disclosed in note 43, net of the cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves. In managing the Group's capital structure, the management will also monitor the utilisation of borrowings, senior notes and bonds and asset-backed securities issued to ensure compliance with financial covenants.

The directors of the Company review the capital structure periodically. As a part of this review, the corporate finance department reviews the planned construction projects proposed by engineering department and prepares the annual budget taking into account of the provision of funding and considers the cost of capital and the risks associated with each class of capital, the Group does not have any target gearing ratio.

The directors of the Company then assess the annual budget and consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

51. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost	29,209,165	32,336,900
Financial assets at FVTPL	1,449,051	2,127,196
Equity instruments designated at FVTOCI	60,086	51,551
Derivative financial instruments	1,241	–
Financial liabilities		
Financial liabilities measured at amortised cost	44,561,649	50,872,196
Derivative financial instruments	32,704	–

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, joint ventures, associates and related parties, financial assets at FVTPL, equity instruments designated at FVTOCI, derivative financial instruments, restricted/pledged bank deposits, bank balances and cash, trade and other payables, amounts due to non-controlling shareholders of subsidiaries of the Company, joint ventures and associates, borrowings, senior notes and bonds, asset-backed securities issued, lease liabilities/obligations under finance leases and derivative financial instruments. Details of these financial instruments are disclosed in respective notes.

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The Group mainly has bank balances, borrowings, lease liabilities/obligations under finance leases and senior notes which are denominated in foreign currencies of the relevant group entities, hence is exposed to exchange rate fluctuations.

The Group entered into foreign currency forward contracts and foreign currency option contracts to hedge certain material senior notes denominated in foreign currency. Given this, the management considers that the net exposure to currency risk is kept to an appropriate level. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged items to maximise hedge effectiveness. Details of the foreign currency forward contracts and foreign currency option contracts entered into by the Group at the end of the reporting period are set out in note 45.

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward contracts and the foreign currency option contracts match the critical terms of the fixed rate senior notes dominated in USD (i.e. notional amount of the foreign currency forward contracts and the foreign currency option contracts, outstanding principal amounts of the senior notes, maturity dates, interest payments and principal repayment dates) while there are knock out features in those foreign currency forward contracts and foreign currency option contracts. Details of the terms of the foreign currency forward contracts and foreign currency option contracts are disclosed in note 45. The Group does not hedge 100% of its senior notes.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective reporting periods are as follow:

	2019 RMB'000	2018 RMB'000
Assets		
USD	223,293	660,827
HKD	60,509	1,170,454
SGD	55,999	157,689
JPY	8,113	23,391
Liabilities		
USD	18,340,921	17,653,480
HKD	134,367	–
SGD	2,417	32,051

Other than the derivative contracts entered into by the Group as mentioned above, the Group currently does not enter into any other derivative contracts to minimise the currency risk exposure. However, the management will consider further hedging significant currency risk should the need arise.

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group mainly exposes to the effects of fluctuation in USD, HKD, SGD and JPY against RMB.

The sensitivity analyses below were prepared based on the Group's sensitivity to a 10% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (taking into consideration of certain senior notes with foreign currency forward contracts and foreign currency option contracts designated as the relevant hedging instruments) and adjusts their translation at the year end for a 10% change in foreign currency rates. Accordingly, the sensitivity analysis includes bank balances, borrowings, lease liabilities, obligations under finance leases and senior notes (taking into consideration of those senior notes subject to foreign currency forward contracts and foreign currency option contracts designated as hedging instruments). 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis also includes bank balances, borrowings, lease liabilities/obligations under finance leases and senior notes. A positive (negative) number indicates an increase (a decrease) in profit for the year.

Foreign currency sensitivity analysis

The impact of RMB strengthening for 10% against the relevant currencies are as follow:

	2019	2018
	RMB'000	RMB'000
USD		
Increase in profit for the year	1,550,663	1,699,265
HKD		
Increase (decrease) in profit for the year	7,386	(117,045)
SGD		
Decrease in profit for the year	(5,358)	(12,564)
JPY		
Decrease in profit for the year	(811)	(2,339)

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Currency risk (continued)*

Foreign currency sensitivity analysis (continued)

The impact of RMB weakening for 10% against the relevant currencies are as follow:

	2019	2018
	RMB'000	RMB'000
USD		
Decrease in profit for the year	(1,704,928)	(1,699,265)
HKD		
(Decrease) increase in profit for the year	(7,386)	117,045
SGD		
Increase in profit for the year	5,358	12,564
JPY		
Increase in profit for the year	811	2,339

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and variable-rate borrowings.

The Group is also exposed to fair value interest rate risk which relates primarily to its fixed-rate loan receivables included in trade and other receivables, borrowings, lease liabilities/obligation under finance leases, senior notes and bonds and asset-backed securities issued.

The Group currently does not use any derivative contracts to hedge its loans to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the benchmark rates.

Sensitivity analysis

Bank balances and restricted/pledged bank deposits

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank balances and restricted/pledged bank deposits at the end of the reporting period. A 25 basis points (2018: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2018: 25 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would have increased/decreased by RMB43,206,000 (2018: RMB53,513,000) assuming the interests on such borrowings would not be capitalised.

Variable-rate borrowings

The sensitivity analysis below has been determined based on the exposure to interest rates for the variable-rate borrowings at the end of the reporting period. A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would have decreased/increased by RMB18,788,000 (2018: RMB35,597,000), assuming the interest on such borrowings would not be capitalised.

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

As at 31 December 2019 and 2018, other than those financial assets whose carrying best present the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 56.

Trade receivables, contract assets and payments on behalf of residents included in other receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality then applies internal credit rating and defines credit limits by customers. The Group reviews the customer's credit quality on a timely basis and carried out monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on contract assets and payments on behalf of residents individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Except for the contract assets in relation to the construction of properties for the government which is considered to be at low credit risk, the Group had no concentration of credit risk in respect of the trade receivables, contract assets and payments on behalf of residents with exposure spread over a number of counter parties.

Other receivables (excluding payments on behalf of residents), amounts due from non-controlling shareholders of the subsidiaries of the Company, associates, joint ventures and related parties, restricted/pledged bank deposits and bank balances

The credit risk of other receivables (excluding payments on behalf of residents), amounts due from non-controlling shareholders of the subsidiaries of the Company, associates, joint ventures and related parties are managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. Further, the Group closely monitors the financial performance of the subsidiaries of the Company with these relevant non-controlling shareholders, associates, joint ventures and related parties. Based on assessment under ECL model by the directors of the Company, the expected credit loss on other receivables (excluding payments on behalf of residents and loan receivables), loan receivables and amount due from a joint venture for the year ended 31 December 2019 was RMB38,951,000 (2018: nil), RMB16,250,000 (2018: nil) and RMB8,606,000 (2018: nil), respectively. Details of the quantitative disclosures are set out below in this note.

The Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC, Singapore and Japan.

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Financial guarantees

For properties under development which are subject to pre-sales agreements, the Group generally typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Group is able to forfeit the customer's purchase deposit and sell the property to recover any amounts paid by the Group to the bank. Therefore, the management considers it would likely recover any loss incurred arising from the guarantee by the Group. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the facilities are secured by the properties and the market prices of the properties are higher than the guaranteed amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's internal credit risk grading assessment comprises the following categories:

	External credit rating	Internal credit rating	Notes	12m or life-time ECL	2019 Gross carrying amount RMB'000	2018 Gross carrying amount RMB'000
Trade receivables						
– property development receivables	N/A	(i)	34	Life-time ECL (individual assessment)	1,361,356	880,046
– property operation services, sales of fuel pumps and lease receivables	N/A	(i)	34	Life-time ECL (provision matrix) Life-time ECL (credit-impaired and individual assessment)	643,944 582,020	773,991 365,965
					2,587,320	2,020,002
Contract assets						
– construction of properties	N/A	Low risk	32	Life-time ECL (individual assessment)	692,359	370,999
– others	N/A	N/A	32	Life-time ECL (provision matrix)	70,522	81,941
					762,881	452,940
Payments on behalf of residents (included in other receivables)	N/A N/A	(ii) (ii)	34 34	Life-time ECL (provision matrix) Life-time ECL (credit-impaired and individual assessment)	740,732 331,888	648,373 262,593
					1,072,620	910,966
Loan receivables (included in other receivables)	N/A	(iii)	34	12m ECL Life-time ECL (credit-impaired and individual assessment)	193,224 32,500	247,211 –

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Financial guarantees (continued)

	External credit rating	Internal credit rating	Notes	12m or life-time ECL	2019 Gross carrying amount RMB'000	2018 Gross carrying amount RMB'000
					225,724	247,211
Amount due from a joint venture (non-current)	N/A	(iv)	26	Life-time ECL (individual assessment) 12m ECL	81,505 -	- 81,505
					81,505	81,505
Other receivables (excluding payments on behalf of residents and loan receivables), remaining amounts due from non- controlling shareholders of the subsidiaries of the Company, associates, joint ventures and related parties	N/A	(v)	34/26	12m ECL Life-time ECL (individual assessment)	2,458,238 38,951	692,550 -
					2,497,189	692,550
Restricted/pledged bank deposits and bank balances	AAA	Low risk	35	12m ECL	23,043,008	28,540,319
Financial guarantee contracts	N/A	Low risk	56	12m ECL	12,482,714	9,789,678

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Trade receivables

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables arising from property operation services, sale of fuel pumps and leases of investment properties which are assessed collectively based on provision matrix or individually as at 31 December 2019 and 2018.

For trade receivables arising from property development, the amount of the loss allowance at 31 December 2019 and 2018 was considered as insignificant to the consolidated financial statements of the Group.

For trade receivables arising from property operation services, sales of fuel pumps and lease receivables in which impairment loss allowance was made:

Category		2019			2018		
		Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
0 – 30 days	Not credit-impaired	0.50%	416,384	2,082	0.5%	462,553	2,313
31 – 90 days	Not credit-impaired	2.00%	227,560	4,551	2.0%	311,438	6,229
91 – 180 days	Credit-impaired	6.00%	265,481	15,929	6.0%	212,352	12,741
181 – 365 days	Credit-impaired	12.00%	246,174	29,541	12.0%	83,435	10,012
Over 1 year	Credit-impaired	45.00%	70,365	31,664	45.0%	70,178	31,580
			1,225,964	83,767		1,139,956	62,875

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking macroeconomic data that is available without undue cost or effort.

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes: (continued)

(ii) Payments on behalf of residents

As part of the Group's credit risk management, the Group applies internal credit rating for its customers on payments on behalf of residents on a timely basis. The Group uses four categories for those receivables which reflect their credit risk.

Category	Group definition of category
Type I	Communities for which the Group have terminated or plan to terminate or non-renew of the related property management contracts because their financial performance does not meet the Group's expectations, the amounts are credit-impaired and the Group has low realistic prospect of recovery.
Type II	Communities for which the Group provides for the pre-delivery property management services for the property developers before the properties are delivered to owners, the property developers have a lower risk of default and a stronger capability to meet contractual cash flows than individual residents.
Type III	Communities where management offices' property management fee receivables due from residents exceed payments on behalf of residents of the relevant communities. The residents of the communities are diversified and have a low risk of default.
Type IV	Communities where payments on behalf of residents exceed management offices' property management fees receivables due from residents, which indicates the payments on behalf of residents are credit-impaired.

The following table provides information about the exposure to credit risk and ECL for payments on behalf of residents which are assessed collectively based on provision matrix or individually as at 31 December 2019 and 2018.

Category		2019			2018		
		Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Type I	Credit-impaired	95.0%	98,409	93,489	95.0%	80,116	76,110
Type II	Not credit-impaired	5.0%	110,838	5,542	5.0%	95,554	4,778
Type III	Not credit-impaired	1.0%	629,894	6,299	1.0%	552,819	5,528
Type IV	Credit-impaired	20.0%	233,479	46,696	20.0%	182,477	36,495
			1,072,620	152,026		910,966	122,911

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking macroeconomic data that is available without undue cost or effort.

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes: (continued)

(iii) Loan receivables

For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

Included in loan receivables, the principal amount of RMB32,500,000 are past due. During the year ended 31 December 2019, the Group entered into a series of agreement with the borrower, the individual shareholder of the borrower and an independent investor, in relation to debt and equity transfer arrangement. Under the arrangement, the independent investor is to acquire the equity interests of the borrower from the individual shareholder and the consideration of RMB35,000,000 is to be transferred to the Group directly for settlement of the loan receivables. However, the aforesaid transaction is not completed and the loan receivable is past due. The Group has initiated a legal proceeding in Shenzhen Longhua District People's Court (the "Relevant Court") regarding the debt transfer contract. The Relevant Court has made a notice to seize the equity interests of three subsidiaries of the borrower to secure the payment of the principal amount to the Group. The alleged value of the seized equity interests is RMB35,266,000. Up to 31 December 2019, the legal proceeding has not been completed. In the opinion of the directors of the Company, the risk of default by these counterparties is significantly increased and the Group provided RMB16,250,000 (2018: nil) credit loss allowance during the year ended 31 December 2019.

The remaining balances of loan receivables amounting to RMB193,224,000 are all not past due. In the opinion of the directors of the Company, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant.

(iv) Amount due from a joint venture (non-current)

During the year ended 31 December 2018, the Group entered into a cooperative agreement with three independent third parties to establish a joint venture and engage in sub-leasing of office premises and commercial buildings. Pursuant to the cooperative agreement, upon the formation establishment of the joint venture, all the Group's interests in the lease agreements in relation to the lease of office premises and commercial buildings located in Shanghai and the sub-leasing agreements with tenants were transferred to the joint venture. The gross amount due from a joint venture of RMB81,505,000 as at 31 December 2018 and 2019 represented funds advanced by the Group for its purchases of property, plant and equipment. The balance is expected to be settled in three years since the incorporation of the joint venture.

During the year ended 31 December 2019, the joint venture suffered losses in the sub-leasing business and is in financial difficulty. In the opinion of the directors of the Company, the risk of default by the joint venture is significantly increased and the Group provided RMB8,606,000 (2018: nil) credit loss allowance under life-time ECL (2018: 12m ECL) during the year ended 31 December 2019.

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes: (continued)

- (v) Other receivables (excluding payments on behalf of residents and loan receivables), remaining amounts due from non-controlling shareholders of the subsidiaries of the Company, associates, joint ventures and related parties

For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

In relation to the past-due balance of RMB38,951,000 included in the other receivables as at 31 December 2019, there was information indicating that the debtors were in severe financial difficulty and there is no realistic prospect of recovery. In the opinion of the directors of the Company, the risks of default by the debtors are significantly increased and the Group provided RMB38,951,000 credit loss allowance during the year ended 31 December 2019.

The remaining balances RMB2,264,766,000 of other receivables (excluding payments on behalf of residents and loan receivables), remaining amounts due from non-controlling shareholders of the subsidiaries of the Company, associates, joint ventures and related parties as at 31 December 2019 are all not past due. In the opinion of the directors of the Company, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant.

As at 31 December 2018, the balances of other receivables (excluding payments on behalf of residents), amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures were all not past due. In the opinion of the directors of the Company, the risk of default by these counterparties was not significant and thus the Group assessed that the ECL on these balances were insignificant.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on amounts due to joint ventures, associates and non-controlling shareholders of subsidiaries of the Company, borrowings, senior notes and bonds and asset-backed securities issued as significant sources of liquidity.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and derivative financial instruments. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected exchange rates at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual settlement dates as the management consider that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

51. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity table

	Weighted average effective interest rate %	On demand or less than 3 month RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	–	2,413,733	1,349,785	1,781,098	–	5,544,616	5,544,616
Amounts due to related parties	–	843,853	–	–	–	843,853	843,853
<i>Borrowings</i>							
–fixed rate	8.50	1,327,160	3,885,117	5,027,516	–	10,239,793	8,975,234
–variable rate	9.27	533,815	1,649,833	3,424,574	–	5,608,222	5,010,128
Lease liabilities	9.28	31,506	94,517	286,202	170,483	582,708	444,396
Senior notes and bonds	10.11	2,122,967	5,839,872	22,360,573	–	30,323,412	24,083,270
Asset-backed securities issued	6.45	64,813	26,273	20,170	–	111,256	104,548
Financial guarantee contracts	–	12,482,714	–	–	–	12,482,714	–
<i>Derivatives – net settlement</i>							
Derivative financial instruments	–	–	19,253	22,385	–	41,638	32,704
		19,820,561	12,864,650	32,922,518	170,483	65,778,212	45,038,749
At 31 December 2018							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	–	4,882,862	1,484,890	524,539	–	6,892,291	6,892,291
Amounts due to related parties	–	356,189	–	–	–	356,189	356,189
<i>Borrowings</i>							
–fixed rate	9.08	1,778,025	4,967,116	4,172,796	248,717	11,166,654	9,662,982
–variable rate	7.64	789,922	1,880,608	6,547,101	1,670,425	10,888,056	9,492,572
Obligations under finance leases	4.88	20,487	61,460	206,521	56,361	344,829	306,044
Senior notes and bonds	9.43	3,414,802	6,502,467	21,872,910	–	31,790,179	24,207,743
Asset-backed securities issued	6.39	36,747	71,550	183,046	–	291,343	260,419
Financial guarantee contracts	–	9,789,678	–	–	–	9,789,678	–
		21,068,712	14,968,091	33,506,913	1,975,503	71,519,219	51,178,240

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

For the year ended 31 December 2019

51. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Fair values of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis. The following table gives information about how the fair values are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key input
	2019 RMB'000	2018 RMB'000		
Financial assets at FVTPL				
– Money market fund investments	29,051	89,196	Level 3	Market approach – Expected performance of government debentures, treasury notes, corporate bonds and short-term fixed deposits.
– Debt Instrument	1,420,000	2,038,000	Level 3	Probability weighted expected return model – Fair value is estimated based on expected value, discount rate and probability of outcome of judicial auction.
Equity instruments designated at FVTOCI	60,086	51,551	Level 3	Discounted cash flow – Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return.
Derivative financial instruments	Assets: 1,241	–	Level 2	Discounted cash flow – Fair value is estimated based on, inter alia, the contracted exchange rate and the forward rate.
	Liabilities: 32,704	–		

51. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

Fair value of the Group's other financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Fair value hierarchy	2019 Carrying amount RMB'000	2019 Fair value RMB'000	2018 Carrying amount RMB'000	2018 Fair value RMB'000
Senior notes	Level 1	18,287,277	18,659,519	18,226,807	15,520,865
Listed corporate bonds	Level 1	5,646,207	5,640,375	4,086,177	4,053,355
Unlisted corporate bonds	Level 3	149,786	152,666	1,894,759	1,916,019
Asset-backed securities issued	Level 3	104,548	175,531	260,419	268,483

The management of the Group estimates the fair value of other financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

52. OPERATING LEASE

The Group as lessee

	31 December 2018 RMB'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	40,381

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 December 2018 RMB'000
Within one year	22,431
In the second to the fifth year inclusive	79,315
After five years	69,215
	170,961

As at 31 December 2018, operating lease payments represented rentals payable by the Group for certain offices premises and commercial properties. Leases are negotiated and rentals are fixed for terms of one to fifteen years.

For the year ended 31 December 2019

52. OPERATING LEASE (continued)

The Group as lessor

All of the properties held for rental purposes have committed lessees for the next 1 to 20 years respectively.

Minimum lease payments receivable on leases are as follows:

	31 December 2019
	RMB'000
Within one year	256,709
In the second year	216,840
In the third year	183,843
In the fourth year	151,403
In the fifth year	115,084
After five years	595,849
	1,519,728

The Group had contracted with tenants for the following future minimum lease payments:

	31 December 2018
	RMB'000
Within one year	192,107
In the second to the fifth year inclusive	490,377
After the fifth year	152,703
	835,187

53. CAPITAL AND OTHER COMMITMENTS

	2019	2018
	RMB'000	RMB'000
Construction commitments in respect of properties for sale contracted for but not provided in the consolidated financial statements	12,506,925	9,117,151
Construction commitments in respect of investment properties contracted for but not provided in the consolidated financial statements	1,284,716	1,804,001
Consideration committed in respect of acquisition of subsidiaries contracted for but not provided in the consolidated financial statements	34,302	61,106
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	26,672	29,203

54. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share option scheme of the Company

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 27 October 2009 for the primary purposes of providing incentives to certain directors and employees of the Company and its subsidiaries ("Eligible Employees"). Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HKD1 per option to the Eligible Employees to subscribe for shares in the Company ("Shares").

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme ("Options") and any other share option schemes of the Company shall not, in the absence of shareholders' approval, in aggregate exceed 10% of the shares of the Company in issue at any point in time. Options granted to a substantial shareholder or an independent non-executive director in excess of 0.1% of the Company's share capital or with a value in excess of HKD5 million must be approved in advance by the Company's shareholders.

The exercisable period of an option is determined by the directors of the Company at their discretion. The expiry date of the Options may be determined by the Board of Directors of the Company which shall not be later than the expiry day of the Scheme.

The exercise price is determined by the directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the five trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

During the year ended 31 December 2019, 4,204,000 share options (2018: 151,000 share options) granted by the Company were lapsed.

As at 31 December 2019, the total number of shares to be issued upon the exercise of all options granted under the Scheme is 75,098,000 (2018: 84,028,000) of HKD0.1 each, representing approximately 1.3% (2018: 1.5%) of the issued share capital of the Company.

For the year ended 31 December 2019

54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share option scheme of the Company (continued)

Details of the share options granted under the Scheme is as follows:

Category of grantees	Date of grant	Exercise price per share HKD	Vesting period	Exercisable period
Directors	29 August 2011	0.836	29/8/2011 – 28/8/2012	29/8/2012 – 28/8/2021
			29/8/2011 – 28/8/2013	29/8/2013 – 28/8/2021
			29/8/2011 – 28/8/2014	29/8/2014 – 28/8/2021
	16 October 2012	0.8	16/10/2012 – 15/10/2013	16/10/2013 – 15/10/2022
			16/10/2012 – 15/10/2014	16/10/2014 – 15/10/2022
			16/10/2012 – 15/10/2015	16/10/2015 – 15/10/2022
Employees	29 August 2011	0.836	29/8/2011 – 28/8/2012	29/8/2012 – 28/8/2021
			29/8/2011 – 28/8/2013	29/8/2013 – 28/8/2021
			29/8/2011 – 28/8/2014	29/8/2014 – 28/8/2021
	16 October 2012	0.8	16/10/2012 – 15/10/2013	16/10/2013 – 15/10/2022
			16/10/2012 – 15/10/2014	16/10/2014 – 15/10/2022
			16/10/2012 – 15/10/2015	16/10/2015 – 15/10/2022

54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share option scheme of the Company (continued)

The following table discloses movements of the Company's share options held by employees and directors during the years ended 31 December 2019 and 2018:

Category grantees	Date of grant	Vesting period	Outstanding	Granted	Lapsed	Exercised	Outstanding	Granted	Lapsed	Exercised	Outstanding
			at 1 January 2018	during the year	during the year	during the year	at 31 December 2018	during the year	during the year	during the year	at 31 December 2019
Directors	29 August 2011	29/8/2011 – 28/8/2012	1,158,000	-	-	-	1,158,000	-	(80,000)	-	1,078,000
		29/8/2011 – 28/8/2013	2,617,000	-	-	-	2,617,000	-	(181,000)	-	2,436,000
		29/8/2011 – 28/8/2014	7,805,000	-	-	-	7,805,000	-	(539,000)	-	7,266,000
	16 October 2012	16/10/2012 – 15/10/2013	1,435,000	-	-	-	1,435,000	-	(340,000)	(17,000)	1,078,000
		16/10/2012 – 15/10/2014	3,067,000	-	-	-	3,067,000	-	(728,000)	(31,000)	2,308,000
		16/10/2012 – 15/10/2015	9,848,000	-	-	-	9,848,000	-	(2,336,000)	(118,000)	7,394,000
			25,930,000	-	-	-	25,930,000	-	(4,204,000)	(166,000)	21,560,000
Employees	29 August 2011	29/8/2011 – 28/8/2012	2,840,000	-	(15,000)	(85,000)	2,740,000	-	-	(414,000)	2,326,000
		29/8/2011 – 28/8/2013	5,378,000	-	(30,000)	(170,000)	5,178,000	-	-	(828,000)	4,350,000
		29/8/2011 – 28/8/2014	20,180,000	-	(106,000)	(593,000)	19,481,000	-	-	(2,900,000)	16,581,000
	16 October 2012	16/10/2012 – 15/10/2013	3,077,000	-	-	(7,000)	3,070,000	-	-	(41,000)	3,029,000
		16/10/2012 – 15/10/2014	5,958,000	-	-	(15,000)	5,943,000	-	-	(86,000)	5,857,000
		16/10/2012 – 15/10/2015	21,738,000	-	-	(52,000)	21,686,000	-	-	(291,000)	21,395,000
			59,171,000	-	(151,000)	(922,000)	58,098,000	-	-	(4,560,000)	53,538,000
Total			85,101,000	-	(151,000)	(922,000)	84,028,000	-	(4,204,000)	(4,726,000)	75,098,000
Exercisable at the end of the year							84,028,000				75,098,000
Weighted average exercise price (HKD)							0.82				0.82
Weighted average exercise price at the date of exercise (HKD)							0.83				0.83

In respect of the Company's share options exercised during the year, the weighted average share price at the dates of exercise was HKD1.42 (2018: HKD1.51).

The closing price of the shares on the date of grant was HKD0.82 at 29 August 2011 and HKD0.77 at 16 October 2012. Binomial option pricing model had been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

For the year ended 31 December 2019

54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share option scheme of the Company (continued)

	16 October 2012	29 August 2011
Market price	HKD0.77	HKD0.820
Exercise price	HKD0.80	HKD0.836
Expected volatility	44.87%	40.43%
Risk-free rate	0.66%	1.74%
Expected dividend yield	5.12%	4.878%

The estimated fair value of the options at the date of grant was RMB16,174,000 on 29 August 2011 and RMB13,682,000 on 16 October 2012, respectively. The Group did not recognise any expense for the years ended 31 December 2019 and 2018 in relation to share options granted by the Company.

(b) Share option scheme of Colour Life

Colour Life, a non-wholly owned subsidiary of the Company, operates a share option scheme (the “Colour Life’s Scheme”). The Colour Life’s Scheme was adopted pursuant to a resolution passed on 11 June 2014 for the primary purposes of providing incentives to certain directors and employees of the Colour Life and its subsidiaries and non-controlling shareholders of certain subsidiaries of Colour Life (“Eligible Persons”). Under the Colour Life’s Scheme, the Board of Directors of Colour Life is authorised to grant options at a consideration of HKD1 per option respectively to the Eligible Persons to subscribe for shares of Colour Life (“Colour Life’s Shares”).

The maximum number of Colour Life’s Shares which may be issued upon exercise of all options to be granted under the Colour Life’s Scheme (“Colour Life’s Options”) and any other share option schemes of Colour Life shall not, in the absence of shareholders’ approval, in aggregate exceed 10% of the shares of Colour Life in issue at any point in time. Colour Life’s Options granted to a substantial shareholder or an independent non-executive director in excess of 0.1% of Colour Life’s share capital or with a value in excess of HKD5 million must be approved in advance by Colour Life’s shareholders.

The exercisable period of an option is determined by the directors of Colour Life at their discretion. The expiry date of Colour Life’s Options may be determined by the Board of Directors of Colour Life which shall not be later than the expiry day of Colour Life’s Scheme.

The exercise price is determined by the directors of Colour Life, and will not be less than the greater of: (i) the closing price of Colour Life on the offer date; (ii) the average of the closing price of Colour Life’s shares for the five trading days immediately preceding the offer of Colour Life’s options and (iii) the nominal value per share of Colour Life.

As at 31 December 2019, the total number of Colour Life’s shares to be issued upon the exercise of all options granted under the Colour Life’s Scheme is 84,473,000 (2018: 85,730,000) of HKD0.1 each, representing approximately 5.9% (2018: 6.5%) of the issued share capital of Colour Life.

54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share option scheme of Colour Life (continued)

Details of the share options granted under Colour Life's Scheme is as follows:

Category of grantees	Date of grant	Exercise price per share HKD	Vesting period	Exercisable period
Directors	29 September 2014	6.66	N/A	29/9/2014 – 28/9/2024
			29/9/2014 – 28/9/2015	29/9/2015 – 28/9/2024
			29/9/2014 – 28/9/2016	29/9/2016 – 28/9/2024
			29/9/2014 – 28/9/2017	29/9/2017 – 28/9/2024
	30 April 2015	11.00	30/4/2015 – 29/4/2016	30/4/2016 – 29/4/2025
			30/4/2015 – 29/4/2017	30/4/2017 – 29/4/2025
			30/4/2015 – 29/4/2018	30/4/2018 – 29/4/2025
	18 March 2016	5.76	18/3/2016 – 17/3/2017	18/3/2017 – 17/3/2026
			18/3/2016 – 17/3/2018	18/3/2018 – 17/3/2026
			18/3/2016 – 17/3/2019	18/3/2019 – 17/3/2026
	27 November 2018	4.11	27/11/2018 – 26/11/2019	27/11/2019 – 26/11/2029
			27/11/2018 – 26/11/2020	27/11/2020 – 26/11/2029
27/11/2018 – 26/11/2021			27/11/2021 – 26/11/2029	
Employees and non-controlling shareholders of certain subsidiaries	29 September 2014	6.66	N/A	29/9/2014 – 28/9/2024
			29/9/2014 – 28/9/2015	29/9/2015 – 28/9/2024
			29/9/2014 – 28/9/2016	29/9/2016 – 28/9/2024
			29/9/2014 – 28/9/2017	29/9/2017 – 28/9/2024
	30 April 2015	11.00	30/4/2015 – 29/4/2016	30/4/2016 – 29/4/2025
			30/4/2015 – 29/4/2017	30/4/2017 – 29/4/2025
			30/4/2015 – 29/4/2018	30/4/2018 – 29/4/2025
	18 March 2016	5.76	18/3/2016 – 17/3/2017	18/3/2017 – 17/3/2026
			18/3/2016 – 17/3/2018	18/3/2018 – 17/3/2026
			18/3/2016 – 17/3/2019	18/3/2019 – 17/3/2026
	27 November 2018	4.11	27/11/2018 – 26/11/2019	27/11/2019 – 26/11/2029
			27/11/2018 – 26/11/2020	27/11/2020 – 26/11/2029
27/11/2018 – 26/11/2021			27/11/2021 – 26/11/2029	

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54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share option scheme of Colour Life (continued)

The following table of the Company discloses movements of Colour Life's share options held by Eligible Persons during the year ended 31 December 2019 and 2018:

Category of grantees	Date of grant	Vesting period	Outstanding	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding	
			at 1 January 2018				at 31 December 2018				at 31 December 2019	
Directors	29 September 2014	N/A	520,000	-	-	-	520,000	-	-	-	520,000	
		29/9/2014 – 28/9/2015	1,064,000	-	-	(50,000)	1,014,000	-	-	-	1,014,000	
		29/9/2014 – 28/9/2016	1,064,000	-	-	(50,000)	1,014,000	-	-	-	1,014,000	
	30 April 2015	29/9/2014 – 28/9/2017	548,000	-	-	(50,000)	498,000	-	-	-	498,000	
		30/4/2015 – 29/4/2016	436,000	-	(60,000)	-	376,000	-	-	-	376,000	
		30/4/2015 – 29/4/2017	435,000	-	(60,000)	-	375,000	-	-	-	375,000	
		30/4/2015 – 29/4/2018	435,000	-	(60,000)	-	375,000	-	-	-	375,000	
		18 March 2016	18/3/2016 – 17/3/2017	427,000	-	(20,000)	(40,000)	367,000	-	-	-	367,000
			18/3/2016 – 17/3/2018	426,000	-	(20,000)	(40,000)	366,000	-	-	-	366,000
	18/3/2016 – 17/3/2019		426,000	-	(20,000)	(40,000)	366,000	-	-	-	366,000	
	27 November 2018	27/11/2018 – 26/11/2019	-	934,000	-	-	934,000	-	-	-	934,000	
		27/11/2018 – 26/11/2020	-	933,000	-	-	933,000	-	-	-	933,000	
		27/11/2018 – 26/11/2021	-	933,000	-	-	933,000	-	-	-	933,000	
			5,781,000	2,800,000	(240,000)	(270,000)	8,071,000	-	-	-	8,071,000	
Employees and non-controlling shareholders of certain subsidiaries	29 September 2014	N/A	5,346,000	-	-	(1,203,000)	4,143,000	-	(56,000)	-	4,087,000	
		29/9/2014 – 28/9/2015	11,078,000	-	-	(2,519,000)	8,559,000	-	(101,000)	-	8,458,000	
		29/9/2014 – 28/9/2016	11,078,000	-	-	(2,519,000)	8,559,000	-	(101,000)	-	8,458,000	
	30 April 2015	29/9/2014 – 28/9/2017	5,611,000	-	-	(1,313,000)	4,298,000	-	(45,000)	-	4,253,000	
		30/4/2015 – 29/4/2016	5,733,000	-	-	-	5,733,000	-	(206,000)	-	5,527,000	
		30/4/2015 – 29/4/2017	5,732,000	-	-	-	5,732,000	-	(206,000)	-	5,526,000	
	18 March 2016	30/4/2015 – 29/4/2018	5,732,000	-	-	-	5,732,000	-	(206,000)	-	5,526,000	
		18/3/2016 – 17/3/2017	8,196,000	-	(7,000)	(2,109,000)	6,080,000	-	(111,000)	(1,000)	5,968,000	
		18/3/2016 – 17/3/2018	8,196,000	-	(7,000)	(2,109,000)	6,080,000	-	(111,000)	(1,000)	5,968,000	
	27 November 2018	18/3/2016 – 17/3/2019	8,195,000	-	(8,000)	(2,109,000)	6,078,000	-	(111,000)	(1,000)	5,966,000	
		27/11/2018 – 26/11/2019	-	5,555,000	-	-	5,555,000	-	-	-	5,555,000	
		27/11/2018 – 26/11/2020	-	5,555,000	-	-	5,555,000	-	-	-	5,555,000	
		27/11/2018 – 26/11/2021	-	5,555,000	-	-	5,555,000	-	-	-	5,555,000	
			74,897,000	16,665,000	(22,000)	(13,881,000)	77,659,000	-	(1,254,000)	(3,000)	76,402,000	
Total			80,678,000	19,465,000	(262,000)	(14,151,000)	85,730,000	-	(1,254,000)	(3,000)	84,473,000	
Exercisable at the end of the year							59,821,000				65,008,000	
Weighted average exercise price (HKD)							6.81				6.78	
Weighted average exercise price at the date of exercise (HKD)							6.25				5.76	

In respect of the Colour Life's share options exercised during the year, the weighted average share price at the dates of exercise was HKD5.89 (2018: HKD7.90).

54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share option scheme of Colour Life (continued)

The closing price of Colour Life's shares on the date of grant was HKD6.66 on 29 September 2014, HKD10.88 on 30 April 2015, HKD5.76 on 18 March 2016 and HKD4.11 on 27 November 2018, respectively. Binomial option pricing model had been used to estimate the fair value of Colour Life's options. The variables and assumptions used in computing the fair value of the share options are based on Colour Life's best estimate. The value of Colour Life's option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	27 November 2018	18 March 2016	30 April 2015	29 September 2014
Market price	HKD4.11	HKD5.76	HKD10.88	HKD6.66
Exercise price	HKD4.41	HKD5.76	HKD11.00	HKD6.66
Expected volatility	52.95%	46.20%	46.26%	48.82%
Risk-free rate	2.28%	1.27%	1.63%	2.01%
Expected dividend yield	1.85%	1.55%	0.83%	0.01%

The estimated fair value of the options at the date of grant was RMB114,820,000 on 29 September 2014, RMB104,714,000 on 30 April 2015, RMB72,023,000 on 18 March 2016 and RMB36,249,000 on 27 November 2018, respectively. Colour Life recognised the total expense of RMB13,567,000 (2018: RMB10,788,000) in share options reserve of Colour Life included in non-controlling interests for the year ended 31 December 2019 in relation to share options granted by Colour Life.

(c) Share option scheme of Morning Star

Morning Star, a wholly-owned subsidiary of the Company, operates a share option scheme (the "Morning Star's Scheme"). The Morning Star's Scheme was adopted pursuant to a resolution passed on 24 December 2015 for the primary purposes of providing incentives to certain directors and employees of the Morning Star and its subsidiaries ("Morning Star's Eligible Employees"). According to the Morning Star's Scheme, the Board of Directors of Morning Star is authorised to grant options at a consideration of HKD1 per option respectively to the Morning Star's Eligible Employees to subscribe for shares of Morning Star ("Morning Star's Shares").

The exercisable period of an option is determined by the directors of Morning Star at their discretion. The expiry date of Morning Star's Options may be determined by the Board of Directors of Morning Star which shall not be later than the expiry day of Morning Star's Scheme.

As at 31 December 2019, none of Morning Star's shares is to be issued upon the exercise of the option granted under Morning Star's Scheme. As at 31 December 2018, the total number of Morning Star's shares to be issued upon the exercise of all options granted under the Morning Star's Scheme is 2,000,000 of HKD1 each, representing approximately 2% of the issued share capital of Morning Star.

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54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Morning Star (continued)

Details of the share options granted under Morning Star's Scheme is as follows:

Category of grantees	Date of grant	Granted	Vesting period	Exercisable period	Vesting condition
Employees	24 December 2015	2,000,000	25/12/2015 – 30/3/2017	1/4/2017 – 30/4/2017	The net profit of Morning Star for year ending 31 December 2016 meets RMB10,000,000
		3,000,000	25/12/2015 – 30/3/2018	1/4/2018 – 30/4/2018	The net profit of Morning Star for year ending 31 December 2017 meets RMB20,000,000
		2,000,000	25/12/2015 – 30/3/2019	1/4/2019 – 30/4/2019	The net profit of Morning Star for year ending 31 December 2018 meets RMB40,000,000

The following table of the Company discloses movements of Morning Star's share options held by Eligible Employees during the years ended 31 December 2019 and 2018:

Category of grantees	Date of grant	Vesting period	Outstanding	Granted	Lapsed	Exercised	Outstanding	Granted	Lapsed	Exercised	Outstanding
			at 1 January 2018	during the year	during the year	during the year	at 31 December 2018	during the year	during the year	during the year	at 31 December 2019
Employees	24 December 2015	25/12/2015 – 30/3/2017	-	-	-	-	-	-	-	-	-
		25/12/2015 – 30/3/2018	3,000,000	-	(3,000,000)	-	-	-	-	-	-
		25/12/2015 – 30/3/2019	2,000,000	-	-	-	2,000,000	-	(2,000,000)	-	-
Total			5,000,000	-	(3,000,000)	-	2,000,000	-	(2,000,000)	-	-
Exercisable at the end of the year							-				-

54. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Morning Star (continued)

Binomial option pricing model had been used to estimate the fair value of these share-based payment transactions with cash alternative arrangements. The estimated fair value of the share options of Morning Star is RMB5,743,000 which represented the goods or services received from the Morning Star's Eligible Employees. The variables and assumptions used in computing the fair value of the share options are based on the management of the Company's best estimate. The expected volatility is based on the historical annualised daily volatilities of comparable companies as if the same sector. Risk-free rate is based on the yield of Hong Kong Exchange Fund Notes as of valuation date as quoted from Bloomberg. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	24 December 2015
Share price	HKD1.85
Exercise price	HKD1.00
Expected volatility	45.5% – 54.6%
Risk-free rate	0.25% – 0.84%
Expected dividend yield	0.0%

Morning Star recognised the total expense of RMB116,000 (2018: RMB773,000) in share options reserve of Morning Star included in non-controlling interests for the year ended 31 December 2019 in relation to share options granted by Morning Star.

(d) Share award scheme of Colour Life

On 4 July 2016, a share award scheme (the "Colour Life's Share Award Scheme") was adopted by Colour Life, to certain employees and consultants of Colour Life, a non-wholly owned subsidiary of the Company, as incentives or rewards for their contribution or potential contribution to Colour Life. The shares to be awarded are repurchased and held by an independent trustee appointed by Colour Life ("Trustee").

Up to 31 December 2017, total of 1,766,000 of Colour Life's shares were acquired by the Trustee for the Colour Life's Share Award Scheme at a consideration of RMB9,010,000 in aggregate.

During the year ended 31 December 2019, total of 2,038,000 (2018: 1,597,000) Colour Life's shares were acquired by the Trustee for the Colour Life's Share Award Scheme at a consideration of RMB7,647,000 (2018: RMB5,585,000).

During the year ended 31 December 2019, 1,833,000 (2018: 1,766,000) shares held for the Colour Life's Share Award Scheme were awarded to eligible employees of the Colour Life for their performance and contribution and were immediately vested. The fair value of the awarded shares at the date of grant of RMB6,567,000 (2018: RMB5,909,000) were recognised as expenses and credited to other non-controlling interests.

Up to 31 December 2019, total of 1,802,000 (2018: 1,597,000) Company's shares acquired have not been awarded to eligible employees or consultants.

For the year ended 31 December 2019

55. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the Mandatory Provident Fund Scheme, which contribution is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC Government. The Company's subsidiaries are required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of RMB294,030,000 (2018: RMB250,027,000) respectively, represented contributions from the continuing operation payable to the scheme.

56. CONTINGENT LIABILITIES

	2019 RMB'000	2018 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	12,166,620	9,789,678

The Group had provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with accrued interests thereon and any penalty owed by the defaulted purchasers to banks. The Group is then entitled to take over the legal title of the related properties. The guarantee period commences from the dates of grant of the relevant mortgage loans and ends after the buyer obtained the individual property ownership certificate.

In the opinion of the directors of the Company, the possibility of the default of the purchasers is remote and the fair value of guarantee contracts is insignificant at the inception and at the end of each reporting period.

57. RELATED PARTY DISCLOSURES

During the year, in addition to those disclosed in elsewhere in the consolidated financial statements, the Group had following significant transactions with related parties:

(a) Related party transactions

Related parties	Relationship	Transactions	2019 RMB'000	2018 RMB'000
Shenzhen Colour Pay	A related company controlled by Mr. Pan Jun, a director and the chief executive officer of the Company	Commission income	72,331	40,272

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2019 RMB'000	2018 RMB'000
Short-term benefits	88,693	94,977
Post-employment benefits	35,599	24,188
	124,292	119,165

(c) Others

- (i) As at 31 December 2018, certain directors of the Company provided joint guarantees to the banks and trust company to secure the Group's bank and other borrowings amounting to RMB846,000,000 in aggregate. During the year ended 31 December 2019, the guarantees were released upon the repayment of the aforesaid bank and other borrowings.
- (ii) During the year ended 31 December 2019, the Group had sold certain properties to its key management personnel of the Group, at a cash consideration of RMB22,529,000 (2018: RMB8,021,000).

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58. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2019 and 2018, pursuant to the agreements entered into with the Group's certain fellow subsidiaries and independent property developers, all of which are customers of the Group, these customers agreed to dispose of their properties to the Group for the settlement of trade receivables due to the Group.

During the years ended 31 December 2019, the carrying amounts of trade receivables of RMB38,173,000 (2018: RMB60,271,000) were settled by the customers by transfer of investment properties to the Group.

During the year ended 31 December 2019, the Group entered into a new lease agreement for the use of leased properties and office equipment and a parcel of leasehold land with lease terms ranging from 1 to 20 years. On the lease commencement, the Group recognised both right-of-use asset and lease liability of RMB146,473,000.

59. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities granted to the Group at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
Properties for sale	8,164,030	6,374,242
Investment properties	4,673,918	2,484,166
Pledged bank deposits	940,506	988,457
Property, plant and equipment	575,845	132,278
Prepaid lease payments	–	75,784
	14,354,299	10,054,927

The Group's equity interests in certain subsidiaries have been pledged to secure certain banking and other facilities granted to the Group.

At 31 December 2019, the Group's 51% equity interest in Shenzhen Yushi with carrying amount of RMB953,752,000 was secured for the other loan of the Group amounting to RMB250,000,000. Details are set out in note 39.

In addition, the lease liabilities of RMB444,396,000 are recognised with related right-of-use assets of RMB603,621,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) Material subsidiaries of the Company

Particulars of principal subsidiaries indirectly held, unless otherwise stated, by the Company as at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2019	2018		
Colour Life ^a	The Cayman Islands 16 March 2011	84,313	51.69%	55.78%	Investment holding	Limited liability company
Fantasia China Group*	The PRC 20 January 2006	1,624,844	100%	100%	Investment holding	Limited liability company
Shenzhen Colour Life**	The PRC 25 August 2006	100,000	51.69%	55.78%	Provision of property operation services	Limited liability company
深圳市花樣年地產集團有限公司 Shenzhen Fantasia Property Development Group Co., Ltd.*	The PRC 28 September 1996	150,000	100%	100%	Investment holding	Limited liability company
南京花樣年房地產開發有限公司 Nanjing Fantasia Real Estate Investment Development Co., Ltd.*	The PRC 25 February 2011	661,253	100%	100%	Property development and property investment	Limited liability company
深圳市金地盈投資有限公司 Shenzhen Jindiying Investing Co., Ltd.*	The PRC 23 August 2005	10,000	81%	81%	Property development	Limited liability company
慈溪嘉年鴻迪房地產開發有限公司 Cixi Jianian Real Estate Co., Ltd.*	The PRC 25 May 2017	10,000	100%	100%	Property development	Limited liability company
蘇州花萬裡房地產開發有限公司 Suzhou Huawanli Real Estate Co., Ltd.*	The PRC 9 September 2009	180,000	100%	100%	Property development	Limited liability company
桂林聚豪房地產開發有限公司 Guilin Juhao Property Development Co., Ltd.*	The PRC 14 November 2007	250,000	100%	100%	Property development	Limited liability company
成都望叢房地產開發有限公司 Chengdu Wangcong Property Development Co., Ltd.*	The PRC 28 June 2014	394,000	100%	100%	Property development	Limited liability company

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60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2019	2018		
蘇州銀莊置地有限公司 Suzhou Yin Zhuang Real Estate Co., Ltd.*	The PRC 25 January 2006	500,000	100%	100%	Property development and property investment	Limited liability company
惠州TCL房地產開發有限公司 Huizhou TCL Property Development Co., Ltd.*	The PRC 29 December 2004	100,000	100%	100%	Property development	Limited liability company
武漢TCL置地投資有限公司 Wuhan TCL Real Estate Investment Co., Ltd.*	The PRC 6 May 2011	30,000	100%	100%	Property development and property investment	Limited liability company
武漢TCL康城房地產開發有限公司 Wuhan TCL Kangcheng Property Development Co., Ltd.*	The PRC 12 September 2012	10,000	100%	100%	Property development	Limited liability company
南京花樣城房地產開發有限公司 Nanjing Huayang City Property Development Co., Ltd.*	The PRC 25 February 2011	50,000	100%	100%	Property development and property investment	Limited liability company
天津松江花樣年置業有限公司 Tianjin Songjiang Huayangnian Properties Co., Ltd.*	The PRC 29 May 2006	50,000	60%	60%	Property development and property investment	Limited liability company
成都花樣清江房地產開發有限公司 Chengdu Huangyang Qingjiang Property Development Co., Ltd.*	The PRC 23 April 2018	420,000	100%	100%	Property development	Limited liability company
安寧花千里房地產開發有限公司 An'ning Huaqianli Property Development Co., Ltd.*	The PRC 20 March 2018	10,000	63%	63%	Property development	Limited liability company
成都花樣家置業有限公司 Chengdu Huayangjia Properties Co., Ltd.*	The PRC 9 April 2018	180,000	100%	100%	Property development	Limited liability company
成都禦府房地產開發有限公司 Chengdu Yufu Property Development Co., Ltd.*	The PRC 2 August 2010	10,000	80%	80%	Property investment	Limited liability company

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2019	2018		
天津花樣年房地產開發有限公司 Tianjin Huayangnian Property Development Co., Ltd.*	The PRC 1 January 2013	306,495	100%	100%	Property investment	Limited liability company
武漢美樂居置業有限公司 Wuhan Meileju Property Development Co., Ltd.*	The PRC 21 November 2014	10,000	50.10%	50.10%	Property development	Limited liability company
北油電控燃油噴射系統 (天津)有限公司 Beiyou Electronic Fuel Injection System (Tianjin) Co., Ltd.*	The PRC 12 December 2017	50,000	100%	100%	Manufacturing and sale of fuel pumps	Limited liability company
寧夏回族自治區新聖基建築 工程有限公司 Ningxia Huizu Xinshengji Engineering Project Co., Ltd.*	The PRC 22 July 2009	100,000	100%	100%	Provision of property operation services	Limited liability company
深圳市彩生活物業管理有限公司 Shenzhen Colour Life Property Management Co., Ltd.**	The PRC 11 December 2000	35,000	51.69%	55.78%	Provision of property operation services	Limited liability company
深圳市彩生活網絡服務有限公司 Shenzhen Colour Life Network Services Co., Ltd.**	The PRC 12 June 2007	90,000	51.69%	55.78%	Provision of property operation services	Limited liability company
深圳市開元同濟樓宇科技有限公司 Shenzhen Kaiyuan Tongji Building Science & Technology Co., Ltd.**	The PRC 15 November 2001	5,000	51.69%	55.78%	Provision of property operation services	Limited liability company
深圳市開元國際物業管理有限公司 Shenzhen Kaiyuan International Property Management Co., Ltd.**	The PRC 19 Oct 2000	50,000	51.69%	55.78%	Provision of property operation services	Limited liability company
花樣年(成都)生態旅遊 開發有限公司 Fantasia (Chengdu) Ecological Tourism Co., Ltd.*	The PRC 7 September 2006	1,921,386	70%	70%	Property development	Limited liability company

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60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2019	2018		
天津市花千里房地產開發有限公司 Tianjin Huaqianli Real Estate Co., Ltd.*	The PRC 22 December 2010	941,667	60%	60%	Property development and property investment	Limited liability company
桂林萬豪房地產開發有限公司 Guilin Wanhao Property Co., Ltd.*	The PRC 14 November 2007	357,143	70%	70%	Property development and property investment	Limited liability company
四川瀚峰置業有限公司 Sichuan Hanfeng Real Estate Co., Ltd.*	The PRC 23 July 2008	594,750	54.6%	54.6%	Property development and property investment	Limited liability company
萬象美物業管理有限公司 Wanxiangmei Property Management Co., Ltd.*#	The PRC 8 May 2015	50,000	51.69%	55.78%	Provision of property operation services	Limited liability company
南京中儲房地產開發有限公司 Nanjing Zhongchu Property Development Co., Ltd.*	The PRC 10 January 2013	240,000	70%	70%	Property development	Limited liability company
武漢中森華永紅房地產開發有限公司 Wuhan Zhongsenhua Yonghong Property Development Co., Ltd.*	The PRC 14 June 2011	100,000	100%	100%	Property development	Limited liability company
四川西美投資有限公司 Sichuan Ximei Investment Co., Ltd.*	The PRC 7 June 2004	427,500	51%	51%	Property development	Limited liability company
唐山金盛房地產開發有限公司 Tangshan Jinsheng Real Estate Co., Ltd.*#	The PRC 26 March 2016	5,000	51%	51%	Property development	Limited liability company
太倉起浩商貿有限公司 Taicang Qihao Commercial Trading Co., Ltd.*	The PRC 12 February 2007	150,000	100%	100%	Property investment	Limited liability company
成都牽銀投資有限公司 Chengdu Qianyin Investment Co., Ltd.*	The PRC 09 June 2010	60,000	80%	80%	Property investment	Limited liability company

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

* The English name is for identification purpose only.

* These subsidiaries were held by a non-wholly owned subsidiary of the Company namely Colour Life as at 31 December 2019 and 2018.

^ Except for the subsidiary directly held by the Company, all other subsidiaries are indirectly owned by the Company.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results, assets or debt securities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Except for Fantasia China Group and Shenzhen Colour Life, none of the subsidiaries had issued debt securities at the end of the year.

(b) Composition of the Group

Information about the subsidiaries of the Company that are not material to the Group at the end of each reporting period is as follow:

Principal activities	Principal place of business	Number of subsidiaries	
		2019	2018
Investment holding	BVI	20	20
	Hong Kong	19	19
	PRC	25	18
	USA	5	5
	Singapore	1	1
	Cayman	1	1
Property development	PRC	221	188
	Singapore	1	1
Property investment	PRC	2	2
	Japan	1	1
	USA	1	1
Property agency services	PRC	1	1
Property operation services	PRC	146	121
Hotel operations	PRC	5	5
	USA	1	1
Other operations	Hong Kong	5	5
	PRC	2	2
	Macao	1	1
		458	393

For the year ended 31 December 2019

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(c) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Company as at 31 December 2019 and 2018 that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Ownership interests and rights held by non-controlling interests		Profit (loss) attributable to other non-controlling interests		Accumulated other non-controlling interests	
		2019	2018	2019	2018	2019	2018
				RMB'000	RMB'000	RMB'000	RMB'000
Colour Life and its subsidiaries	PRC	48.31%	44.22%	277,980	247,362	2,051,500	1,507,175
Chengdu Tourism	PRC	30%	30%	(17,506)	2,602	840,319	857,825
Sichuan Hanfeng	PRC	45.4%	45.4%	313,898	(30,363)	1,038,671	724,773
Sichuan Ximei	PRC	49%	49%	99,333	105,066	594,208	494,875
				673,705	324,667	4,524,698	3,584,648
Individually immaterial subsidiaries with non-controlling interests				(45,444)	115,178	2,091,628	2,680,590
				628,261	439,845	6,616,326	6,265,238

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(c) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of Company's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represented amounts before intra-group eliminations.

	Colour Life and its subsidiaries		Chengdu Tourism	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Current assets	4,975,944	5,783,563	4,390,367	3,651,737
Non-current assets	4,399,999	4,282,730	938,606	956,679
Current liabilities	(3,717,573)	(4,593,616)	(1,946,248)	(1,429,069)
Non-current liabilities	(1,606,374)	(2,216,538)	(581,659)	(319,929)
Equity attributable to owners of the				
Company	2,000,496	1,748,964	1,960,747	2,001,593
Non-controlling interests	2,051,500	1,507,175	840,319	857,825
Revenue	3,845,003	3,613,658	360,048	239,442
Expenses	(3,309,312)	(3,095,631)	(418,400)	(230,767)
Profit (loss) for the year	535,691	518,027	(58,352)	8,675
Profit (loss) attributable to the owners of the Company	257,711	270,665	(40,846)	6,073
Profit (loss) attributable to the non-controlling interests	277,980	247,362	(17,506)	2,602
Net cash inflow (outflow) from operating activities	544,636	525,921	227,170	(168,095)
Net cash (outflow) inflow from investing activities	(42,443)	122,270	(32,696)	(13,091)
Net cash (outflow) inflow from financing activities	(1,449,805)	162,431	234,852	161,507
Net cash (outflow) inflow	(947,612)	810,622	429,326	(19,679)

For the year ended 31 December 2019

60. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(c) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	Sichuan Hanfeng		Sichuan Ximei	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Current assets	7,724,650	5,977,095	9,178,758	7,732,717
Non-current assets	601,101	378,138	617,075	350,318
Current liabilities	(5,957,456)	(3,785,700)	(8,583,163)	(7,073,086)
Non-current liabilities	(80,473)	(973,116)	–	–
Equity attributable to owners of the Company	1,249,151	871,644	618,462	515,074
Non-controlling interests	1,038,671	724,773	594,208	494,875
Revenue	3,278,922	–	3,544,888	691,909
Change in fair value of investment properties	84,515	10,456	–	–
Expenses	(2,672,032)	(77,334)	(3,342,167)	(477,488)
Profit (loss) for the year	691,405	(66,878)	202,721	214,421
Profit (loss) attributable to the owners of the Company	377,507	(36,515)	103,388	109,355
Profit (loss) attributable to the non-controlling interests	313,898	(30,363)	99,333	105,066
Net cash inflow (outflow) from operating activities	1,337,856	(497)	1,126,744	219,972
Net cash outflow from investing activities	(139,098)	(70,782)	(175,995)	(21,559)
Net cash outflow from financing activities	(918,258)	(59,900)	(889,593)	(208,127)
Net cash inflow (outflow)	280,500	(131,179)	61,156	(9,714)

61. FINANCIAL SUMMARY OF THE COMPANY

Statement of financial position of the Company

	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	4,246,010	3,772,625
Amounts due from subsidiaries	9,966,870	11,652,927
	14,212,880	15,425,552
CURRENT ASSETS		
Other receivables	4,131	3,732
Bank balances and cash	22,154	559,313
	26,285	563,045
CURRENT LIABILITIES		
Other payables	10,012	10,159
Amounts due to subsidiaries	76,257	130,990
Senior notes	1,733,751	4,650,817
	1,820,020	4,791,966
NET CURRENT LIABILITIES	(1,793,735)	(4,228,921)
TOTAL ASSETS LESS CURRENT LIABILITIES	12,419,145	11,196,631
NON-CURRENT LIABILITIES		
Senior notes	16,553,526	13,575,990
NET LIABILITIES	(4,134,381)	(2,379,359)
CAPITAL AND RESERVES		
Share capital	498,359	497,945
Reserves	(4,632,740)	(2,877,304)
	(4,134,381)	(2,379,359)

For the year ended 31 December 2019

61. FINANCIAL SUMMARY OF THE COMPANY (continued)

Movement of reserves

	Share premium RMB'000	Accumulated losses RMB'000	Share options reserve RMB'000	Total RMB'000
At 1 January 2018	1,695,255	(2,387,255)	17,534	(674,466)
Loss and total comprehensive expense for the year	–	(1,874,209)	–	(1,874,209)
Issue of shares upon exercise of share options	802	–	(214)	588
Dividend distributed to shareholders of the Company (note 13)	(329,217)	–	–	(329,217)
At 31 December 2018	1,366,840	(4,261,464)	17,320	(2,877,304)
Loss and total comprehensive expense for the year	–	(1,562,490)	–	(1,562,490)
Issue of shares upon exercise of share options	4,050	–	(1,056)	2,994
Dividend distributed to shareholders of the Company (note 13)	(195,940)	–	–	(195,940)
At 31 December 2019	1,174,950	(5,823,954)	16,264	(4,632,740)

62. EVENTS AFTER THE END OF THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus (“COVID-19”) in PRC and the subsequent quarantine measures imposed by the PRC government in early 2020 have had a negative impact on the operations of the Group to a certain extent since January 2020, as most of the Group’s operations are located in PRC and the major suppliers, contractors and customers of the Group are also located in PRC. The progress of the construction work of the property projects of the Group and the timing of the pre-sale of properties may be affected if the quarantine measures in different regions of PRC persisted in 2020.

As the date these consolidated financial statements are authorised for issue, construction works for some of the Group’s property projects have gradually resumed and the Group is now speeding up construction progress without compromising quality. Due to the dynamic nature and unpredictability of future development and market sentiment of COVID-19, the directors of the Company consider the financial effects on the Group’s consolidated financial statements in future cannot be reasonably estimated as at the date of these financial statements are authorised for issue.

Deloitte.

德勤

TO THE MEMBERS OF FANTASIA HOLDINGS GROUP CO., LIMITED

花樣年控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Fantasia Holdings Group Co., Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 83 to 245, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter**How our audit addressed the key audit matter****Valuation of properties for sale**

We identified the valuation of properties for sale as a key audit matter due to the significant estimates involved in the determination of net realisable value (the "NRV") of the properties for sale. As disclosed in note 30 to the consolidated financial statements, the Group had properties under development for sale of RMB26,431,268,000 and completed properties for sale of RMB8,451,136,000 (collectively referred to as the "properties for sale") as at 31 December 2018, which are situated in the People's Republic of China (the "PRC"). Certain residential properties and carparks of the Group are not located in the downtown with the slim profit margins which indicate possible potential impairment loss on the properties for sale.

As disclosed in note 4 to the consolidated financial statements, the properties for sale are stated at the lower of cost and the NRV. The NRV is determined by reference to the estimated selling prices of the properties for sale, which takes into account a number of factors including the latest market prices of similar property types in the same project or by similar properties, and the prevailing real estate market conditions in the PRC, less estimated selling expenses and estimated cost to completion.

The management assessed the NRV of the properties with possible potential impairment indication with reference to the valuations carried out by an independent qualified professional valuer not connected with the Group ("the Valuer"). Based on the management's analysis of the property for sale, no write-downs were considered to be necessary in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

Our procedures in relation to assessing management's assessment of the valuation of properties for sale included:

- Assessing the management's process of reviewing the budgeted cost of the properties for sales and the determination of the NRV of properties for sales;
- Evaluating the reasonableness of the estimated cost to completion of the properties under development for sale, on a sample basis, by comparing it to the actual development cost of similar completed properties and comparing the adjustments made by the management to current market data;
- Assessing the appropriateness of the estimated selling prices of the properties for sale used by the management with reference to the latest market prices achieved in the same projects or by comparable properties, including an evaluation of the appropriateness of the comparable properties used by the management of the Group based on our knowledge of the Group's business and the PRC real estate industry;
- Obtaining the valuation reports provided by the Valuer for the residential properties and carparks with possible potential impairment indication and comparing the carrying amounts of the aforesaid residential properties and carparks to the corresponding valuation amounts;
- Assessing the competence, capabilities and objectivity of the Valuer; and
- Obtaining the detailed work of the Valuer on the residential properties and carparks with possible potential impairment indication to evaluate the accuracy and relevance of key data inputs underpinning the valuation and challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in the PRC.

Key audit matter

How our audit addressed the key audit matter

Recoverability of trade receivables

We identified the recoverability of trade receivables as a key audit matter due to the significance of the balance to the consolidated financial statements, combined with the significant degree of estimations, in evaluating the expected credit loss (“ECL”) of trade receivables which may affect the carrying value at the end of the reporting period.

As disclosed in note 4 to the consolidated financial statements, the management used provision matrix to calculate the ECL of trade receivables and the provision rates are based on debtors' aging and taken into consideration the historical default rates and the forward-looking information. As disclosed in note 33 to the consolidated financial statements, the carrying amount of trade receivables is RMB1,957,127,000 as at 31 December 2018, after net off the allowance for impairment losses of RMB62,875,000, and the allowance for impairment losses of RMB41,116,000 was recognised in profit or loss for the year end 31 December 2018.

Our procedures in relation to assessing the recoverability of trade receivables included:

- Obtaining an understanding on how the management assess the ECL of trade receivables by apply the ECL model upon application of HKFRS 9 “Financial Instruments” on 1 January 2018;
- Testing the integrity of information used by management about the trade receivables which are assessed for ECL individually, on a sample basis, to the source documents, including the terms set out in the sales and purchase agreements, mortgage approval documents from the banks to substantiate the unconditional approval of mortgage facilities granted by the banks to the property buyers regarding the sale by mortgage, bank statements and bank slips regarding the sale by instalments;
- Testing the integrity of information used by management to develop the provision matrix, including the aging analysis, on a sample basis, to the source documents, including invoices and demand notes;
- Evaluating the appropriateness of the expected average loss rates applied by reference to the historical recovery rate, probability of default by its customers and forward-looking information; and
- Evaluating the disclosures regarding the impairment assessment of the trade receivables in note 49 to the consolidated financial statements.

Key audit matter**How our audit addressed the key audit matter****Valuation of investment properties**

We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the estimates associated with determining the fair value. As disclosed in note 16 to the consolidated financial statements, the investment properties of the Group mainly represent commercial buildings, offices and carparks located in the PRC and carried at RMB10,515,977,000 as at 31 December 2018, including completed investment properties of RMB8,796,779,000 and investment properties under construction of RMB1,719,198,000, which represent 11.13% of the Group's total assets. Change in fair value of investment properties of RMB136,802,000 and recognition of change in fair value of completed properties for sale upon transfer to investment properties of RMB82,409,000 were recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

All of the Group's investment properties are stated at fair value based on valuations performed by the Valuer. Details of the valuation techniques and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements. The valuations of the completed investment properties are dependent on certain key inputs, including term yield, reversionary yield, vacancy ratio and adjustment made to account for differences in location. The valuations of investment properties under construction are dependent on gross development values, developer's profit, marketing costs, construction costs to completion, and market unit sales price.

Our procedures in relation to assessing the appropriateness of the carrying values of the investment properties included:

- Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement;
- Evaluating the appropriateness of the Valuer's valuation approach to assess if they are consistent with the requirements of HKFRSs and industry norms;
- Obtaining the detailed work of the Valuer, particularly the key inputs to the valuation on completed investment properties including but not limited to the comparable market prices of properties, term yield, reversionary yield of rental income and vacancy ratio; and the key inputs to the valuation on investment properties under construction including but not limited to the gross development values, developer's profit, marketing costs, construction costs to completion;
- Evaluating the accuracy and relevance of key data inputs underpinning the valuation and challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in the PRC;
- Obtaining the latest budget for construction and other costs of investment properties under construction and checking to the information obtained by the Valuer for the valuation; and
- Evaluating the sensitivity analysis prepared by the management on the key inputs to evaluate the magnitude of their impacts on the fair values and assessing the appropriateness of the disclosures relating to these sensitivities.

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill

We identified the impairment assessment of goodwill arising on acquisition of businesses through acquisition of subsidiaries as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant degree of estimations made by the management of the Group associated with the recoverable amount of the cash-generating units to which goodwill has been allocated.

As disclosed in note 4 to the consolidated financial statements, the management assessed the impairment of goodwill by estimation of recoverable amount of the cash-generating units to which goodwill has been allocated which is the higher of the value in use and fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit based on five-year financial budgets approved by the management of the Group and a suitable discount rate in order to calculate the present value. Key estimates involved in the preparation of cash flow projections for the period covered by the approved financial budgets include the growth rates, discount rates and expected future cash inflows/outflows including revenue, gross profit and operating expenses estimated. As disclosed in note 21 to the consolidated financial statements, the carrying amount of goodwill was RMB2,339,723,000 representing 2.48% of total assets of the Group, the balance of impairment was RMB81,574,000 as at 31 December 2018 and the impairment loss of nil was recognised by the management of the Group during the year ended 31 December 2018.

Our procedures in relation to the impairment assessment of goodwill included:

- Discussing with the management to understand the key estimations made by the management in the impairment assessment of goodwill including the growth rates, discount rates and expected future cash inflows/outflows including revenue, gross profit and operating expenses estimated;
- Evaluating the reasonableness of the growth rates and expected future cash inflows/outflows, including revenue, gross profit and operating expenses estimated, based on the Group's historical financial performance;
- Evaluating the appropriateness of discount rates applied in the forecast by comparing them to economic and industry data; and
- Evaluating the reasonableness of the financial budgets approved by the management and the cash flow projections by comparing the actual results of those cash-generating units to the previously forecasted results used in the impairment assessment of goodwill.

Key audit matter**How our audit addressed the key audit matter****Revenue recognised from sales of properties**

We identified revenue recognised from sales of properties as a key audit matter as it is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income.

The Group's revenue from sales of properties for the year ended 31 December 2018 amounted to RMB8,554,508,000, which is disclosed in note 5 to the consolidated financial statements, representing 61.16% of the Group's total revenue. As disclosed in note 5 to the consolidated financial statements, revenue from sales of properties is recognised when control of completed property is transferred to the customer, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

Our procedures in relation to revenue recognised from sales of properties included:

- Obtaining an understanding of and assessing the effectiveness of the Group's internal control over the process of transferring the control of completed properties to the customers and determining the point of time at which revenue from sales of properties is recognised;
- Inspecting, on a sample basis, the terms set out in the sale and purchase agreements to understand the point that the customers obtain the control of the completed properties and the Group has present right to payment and the collection of the consideration is probable; and
- Evaluating whether the control of completed properties have been transferred to the customers by checking, on a sample basis, to the terms of the sale and purchase agreements, the relevant completion certificate for construction work, the delivery notice sent to the customers and the settlement status of the consideration.

Key audit matter

How our audit addressed the key audit matter

Fair value measurement of a debt instrument (the “Debt Instrument”) included in financial assets at fair value through profit or loss (“FVTPL”)

We identified fair value measurement of the Debt Instrument as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the estimates associated with determining the fair value. As disclosed in note 20 to the consolidated financial statements, the Debt Instrument included in financial assets at FVTPL of the Group carried at RMB2,038,000,000 as at 31 December 2018 and change in fair value of the Debt Instrument of RMB938,000,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year.

The fair value of the Debt Instrument is determined by the management with reference to a valuation report prepared by the Valuer. Details of the valuation techniques and key inputs used in the valuations are disclosed in note 20 to the consolidated financial statements. The fair value of the Debt Instrument is determined based on the probability weighted expected return model, which involved estimation of cash flows that can be recovered from the Debt Instrument under different scenarios of the outcomes of the judicial auction. The valuations of the Debt Instrument are dependent on certain unobservable inputs, including the expected value, discount rate and probability of outcome of the judicial auction.

Our procedures in relation to fair value measurement of the Debt Instrument included:

- Evaluating the Group’s internal valuation process as well as Valuer’s competence, capabilities, objectivity and obtaining an understanding of the Valuer’s scope of work and their terms of engagement;
- Evaluating the appropriateness of the Valuer’s valuation approach to assess if they are consistent with the requirements of HKFRSs and industry norms with the assistance of our internal valuation specialists;
- Evaluating the reasonableness of the key unobservable inputs estimated by the management in the fair value measurement of the Debt Instrument, including the expected value, discount rate and probability of outcome of the judicial auction and the progress of judicial auction, with the assistance of the Group’s legal counsel and our internal valuation specialists; and
- Obtaining the detailed work of the Valuer on the valuation of the Debt Instrument to evaluate the accuracy and relevance of key data inputs underpinning the valuation.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Lam Chi Hong.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 March 2019

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue			
Goods and services	5	13,733,624	9,539,381
Rental		252,509	243,187
Total revenue		13,986,133	9,782,568
Cost of sales and services		(9,802,167)	(6,884,964)
Gross profit		4,183,966	2,897,604
Other income	7	149,649	99,972
Other gains and losses	7	561,873	909,077
Impairment losses, net of reversal	8	(82,424)	(62,012)
Change in fair value of investment properties	16	136,802	966,184
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	30	82,409	118,589
Selling and distribution expenses		(439,032)	(417,872)
Administrative expenses		(1,389,214)	(1,167,835)
Finance costs	9	(1,464,674)	(1,279,587)
Share of results of associates		34,880	8,843
Share of results of joint ventures		(11,140)	167,670
Gain on disposal of subsidiaries	46	1,273,824	326,285
Profit before tax	10	3,036,919	2,566,918
Income tax expense	11	(1,868,735)	(1,157,207)
Profit for the year		1,168,184	1,409,711
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligations		(238)	(8,035)
Deferred taxation effect		60	2,009
Other comprehensive expense for the year, net of income tax		(178)	(6,026)
Total comprehensive income for the year		1,168,006	1,403,685
Profit for the year attributable to:			
Owners of the Company		728,339	1,154,316
Other non-controlling interests		439,845	255,395
		1,168,184	1,409,711
Total comprehensive income for the year attributable to:			
Owners of the Company		728,233	1,150,710
Other non-controlling interests		439,773	252,975
		1,168,006	1,403,685
Earnings per share – basic (RMB cents)	14	12.64	20.03
Earnings per share – diluted (RMB cents)	14	12.58	19.95

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,596,806	2,611,084
Investment properties	16	10,515,977	10,194,164
Interests in associates	17	1,346,586	1,174,908
Interests in joint ventures	18	1,426,958	1,060,057
Available-for-sale investments	19	–	117,663
Equity instruments designated at fair value through other comprehensive income	19	51,551	–
Goodwill	21	2,339,723	2,299,758
Intangible assets	22	1,188,896	1,319,901
Prepaid lease payments	23	206,743	754,720
Premium on prepaid lease payments	24	76,418	1,268,992
Other receivables	33	158,698	167,624
Amount due from a joint venture	25	81,505	–
Pledged bank deposits	35	558,457	–
Deposits paid for potential acquisitions of subsidiaries	26	194,427	799,606
Deposit paid for acquisition of a property project	27	202,961	159,214
Deposits paid for acquisition of land use rights	28	228,703	118,103
Deferred tax assets	29	565,707	461,990
		21,740,116	22,507,784
CURRENT ASSETS			
Properties for sale	30	34,882,404	23,777,966
Inventories		544,407	194,655
Prepaid lease payments	23	6,750	18,228
Premium on prepaid lease payments	24	2,548	19,233
Contract assets	31	449,590	–
Contract costs	32	201,414	–
Trade and other receivables	33	5,938,028	4,129,404
Amounts due from customers for contract works	34	–	104,079
Tax recoverable		105,212	85,990
Amounts due from non-controlling shareholders of the subsidiaries of the Company	25	319,230	1,052,812
Amounts due from joint ventures	25	101,272	362,935
Amounts due from associates	25	15,909	27,567
Financial assets at fair value through profit or loss (“FVTPL”)	20	2,127,196	234,460
Restricted/pledged bank deposits	35	1,789,411	2,106,552
Bank balances and cash	35	26,222,584	14,335,075
		72,705,955	46,448,956

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES			
Trade and other payables	36	10,393,583	9,282,468
Deposits received for sale of properties		–	5,503,060
Amounts due to customers for contract works	34	–	13,778
Contract liabilities	37	13,039,071	–
Amounts due to joint ventures	38	368	10,000
Amounts due to associates	38	19,971	13,513
Amounts due to non-controlling shareholders of the subsidiaries of the Company	38	335,850	–
Tax liabilities		5,504,651	4,431,080
Borrowings due within one year	39	7,959,810	3,022,026
Obligations under finance leases	40	69,164	51,693
Senior notes and bonds	41	6,397,660	4,484,610
Asset-backed securities issued	42	208,636	42,533
Provisions	43	30,740	40,131
Other current liabilities		2,625	220
		43,962,129	26,895,112
NET CURRENT ASSETS			
		28,743,826	19,553,844
TOTAL ASSETS LESS CURRENT LIABILITIES			
		50,483,942	42,061,628
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	1,734,943	1,754,528
Borrowings due after one year	39	11,195,744	6,841,619
Obligations under finance leases	40	236,880	259,299
Senior notes and bonds	41	17,810,083	15,320,332
Asset-backed securities issued	42	51,783	185,204
Other non-current liabilities		–	2,615
		31,029,433	24,363,597
NET ASSETS			
		19,454,509	17,698,031
CAPITAL AND RESERVES			
Share capital	44	497,945	497,868
Reserves		12,465,583	12,139,049
Equity attributable to owners of the Company		12,963,528	12,636,917
Non-controlling interests		6,490,981	5,061,114
		19,454,509	17,698,031

The consolidated financial statements on pages 83 to 245 are approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

PAN JUN
EXECUTIVE DIRECTOR

DENG BO
EXECUTIVE DIRECTOR

For the year ended 31 December 2018

	Attributable to owners of the Company										Attributable to non-controlling interests				Total RMB'000
	Share capital RMB'000	Share premium RMB'000 (note i)	Special reserve RMB'000 (note ii)	Share options reserve RMB'000 (note iii)	Contribution reserve RMB'000 (note iv)	Statutory reserve RMB'000 (note v)	Discretionary reserve RMB'000 (note v)	Revaluation reserve RMB'000 (note vi)	Accumulated profits RMB'000	Sub-total RMB'000	Share options reserve of Colour Life RMB'000 (note iii)	Share options reserve of Morning Star RMB'000 (note iii)	Other non- controlling interests RMB'000	Non- controlling interests Sub-total RMB'000	
At 1 January 2017	497,848	1,945,103	252,953	17,591	40,600	72,774	1,477	10,058	8,116,947	10,955,351	197,155	2,942	1,965,287	2,165,384	13,120,735
Profit for the year	-	-	-	-	-	-	-	-	1,154,316	1,154,316	-	-	255,395	255,395	1,409,711
Remeasurement of defined benefit obligations	-	-	-	-	-	-	-	(4,808)	-	(4,808)	-	-	(3,227)	(3,227)	(8,035)
Deferred taxation effect	-	-	-	-	-	-	-	1,202	-	1,202	-	-	807	807	2,009
Other comprehensive expense for the year	-	-	-	-	-	-	-	(3,606)	-	(3,606)	-	-	(2,420)	(2,420)	(6,026)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	(3,606)	1,154,316	1,150,710	-	-	252,975	252,975	1,403,685
Issue of shares upon exercise of share options of the Company	20	201	-	(57)	-	-	-	-	-	164	-	-	-	-	164
Dividend distributed to shareholders of the Company (note 13)	-	(250,049)	-	-	-	-	-	-	-	(250,049)	-	-	-	-	(250,049)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(55,832)	(55,832)	(55,832)
Recognition of equity-settled share-based payments (note 52)	-	-	-	-	-	-	-	-	-	-	45,303	1,913	-	47,216	47,216
Acquisition of subsidiaries (note 45)	-	-	-	-	-	-	-	-	-	-	-	-	94,791	94,791	94,791
Disposal of subsidiaries (note 46(a))	-	-	-	-	-	-	-	-	-	-	-	-	(1,193)	(1,193)	(1,193)
Deemed disposal of partial interests in subsidiaries without loss of control (note 46(b))	-	-	780,741	-	-	-	-	-	-	780,741	-	-	2,521,869	2,521,869	3,302,610
Disposal of partial interest in a subsidiary resulting in loss of control (note 46(c))	-	-	-	-	-	-	-	-	-	-	-	-	(1,106)	(1,106)	(1,106)
Contribution from non- controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	55,797	55,797	55,797
Cancelled upon repurchase of shares of Colour Life Transfer	-	-	-	-	-	-	-	-	-	-	-	-	(18,787)	(18,787)	(18,787)
At 31 December 2017 (audited)	497,868	1,695,255	1,033,694	17,534	40,600	85,730	1,477	6,452	9,258,307	12,636,917	242,458	4,855	4,813,801	5,061,114	17,698,031
Effect arising from initial application of HKFRS 9 (note 2)	-	-	-	-	-	-	-	-	(10,134)	(10,134)	-	-	(756)	(756)	(10,890)
Effect arising from initial application of HKFRS 15 (note 2)	-	-	-	-	-	-	-	-	14,417	14,417	-	-	(794)	(794)	13,623
At 1 January 2018 (adjusted)	497,868	1,695,255	1,033,694	17,534	40,600	85,730	1,477	6,452	9,262,590	12,641,200	242,458	4,855	4,812,251	5,059,564	17,700,764
Profit for the year	-	-	-	-	-	-	-	-	728,339	728,339	-	-	439,845	439,845	1,168,184
Remeasurement of defined benefit obligations	-	-	-	-	-	-	-	(142)	-	(142)	-	-	(96)	(96)	(238)
Deferred taxation effect	-	-	-	-	-	-	-	36	-	36	-	-	24	24	60
Other comprehensive expense for the year	-	-	-	-	-	-	-	(106)	-	(106)	-	-	(72)	(72)	(178)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company										Attributable to non-controlling interests				Total RMB'000
	Share capital RMB'000	Share premium RMB'000 (note i)	Special reserve RMB'000 (note ii)	Share options reserve RMB'000 (note iii)	Contribution reserve RMB'000 (note iv)	Statutory reserve RMB'000 (note v)	Discretionary reserve RMB'000 (note v)	Revaluation reserve RMB'000 (note vi)	Accumulated profits RMB'000	Sub-total RMB'000	Share options reserve of Colour Life RMB'000 (note iii)	Share options reserve of Morning Star RMB'000 (note iii)	Other non- controlling interests RMB'000	Non- controlling interests Sub-total RMB'000	
Total comprehensive (expense) income for the year	-	-	-	-	-	-	(106)	728,339	728,233	-	-	439,773	439,773	1,168,006	
Issue of shares upon exercise of share options of the Company	77	802	-	(214)	-	-	-	-	665	-	-	-	-	665	
Issue of shares upon exercise of share options of Colour Life (note vii)	-	-	90,480	-	-	-	-	(12,497)	77,983	(33,131)	-	31,018	(2,113)	75,870	
Dividend distributed to shareholders of the Company (note 13)	-	(329,217)	-	-	-	-	-	-	(329,217)	-	-	-	-	(329,217)	
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(98,551)	(98,551)	(98,551)	
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	519,194	519,194	519,194	
Dilution of interests in Colour Life (note viii)	-	-	65,612	-	-	-	-	(39,640)	25,972	-	-	326,324	326,324	352,296	
Recognition of equity-settled share-based payments (note 52)	-	-	-	-	-	-	-	-	-	10,788	773	5,909	17,470	17,470	
Acquisition of subsidiaries (note 45)	-	-	-	-	-	-	-	-	-	-	-	419,147	419,147	419,147	
Acquisition of additional interests in subsidiaries from non-controlling shareholders (note ix)	-	-	(73,842)	-	-	-	-	-	(73,842)	-	-	(69,625)	(69,625)	(143,467)	
Disposal of subsidiaries (note 46(a))	-	-	-	-	-	-	-	-	-	-	-	(70,233)	(70,233)	(70,233)	
Deemed disposal of partial interests in subsidiaries without loss of control (note 46(b))	-	-	(185,493)	-	-	-	-	78,027	(107,466)	-	-	107,466	107,466	-	
Disposal of partial interest in a subsidiary resulting in loss of control (note 46(c))	-	-	-	-	-	-	-	-	-	-	-	(151,850)	(151,850)	(151,850)	
Shares repurchased under the share award scheme of Colour Life (note 52(d))	-	-	-	-	-	-	-	-	-	-	-	(5,585)	(5,585)	(5,585)	
Transfer	-	-	-	-	-	57,028	-	(57,028)	-	-	-	-	-	-	
At 31 December 2018	497,945	1,366,840	930,451	17,320	40,600	142,758	1,477	6,346	9,959,791	12,963,528	220,115	5,628	6,265,238	6,490,981	19,454,509

Notes:

- (i) Pursuant to article 16 of the Company's Article of Association, the Company is permitted to pay out dividend from share premium account.
- (ii) Special reserve arising from the acquisition or disposal of equity interests in subsidiaries without loss of control. It represented the difference between the consideration paid or received and the adjustment to the non-controlling interests in subsidiaries.
- (iii) Share options reserve represented the share-based payment under share option schemes of the Company, Colour Life Service Group Co., Limited ("Colour Life") and Morning Star Group Limited ("Morning Star"), both of which are subsidiaries of the Company.
- (iv) Contribution reserve represented (a) the contribution/distribution to shareholders during the group reorganisation in 2009; (b) the difference between consideration paid and fair value of net assets acquired from related parties; (c) the difference between the consideration received and carrying amount of net assets disposed of to related parties during the Group reorganisation in 2009; and (d) the waiver of shareholder loans in 2009.

For the year ended 31 December 2018

- (v) The statutory reserve and discretionary reserve attributable to subsidiaries in the People's Republic of China (the "PRC") are non-distributable. Transfers to these reserves are determined by the board of directors or the shareholders' meeting of the PRC subsidiaries in accordance with the relevant laws and regulations of the PRC. These reserves can be used to offset accumulated losses, expand the scale of production and business and transfer to capital upon approval from the relevant authorities.
- (vi) Revaluation reserve mainly represented surplus arose from the transfer of owner-occupied property to investment properties at the date of change in use.
- (vii) During the year ended 31 December 2018, 11,996,000 shares of Colour Life were issued upon the exercise of share options of Colour Life. The aggregated net proceeds received by Colour Life from the holders of share options of Colour Life was RMB75,870,000. The exercise of the share options of Colour Life resulted in the dilution of the Group's percentage of equity interests in Colour Life without loss of control. The difference of RMB90,480,000 between the aggregated net proceeds received by Colour Life, together with the share-based payments previously recognized in share options reserve of Colour Life, and the change in share of net assets of Colour Life by non-controlling shareholders after taking into account of the relevant attributable accumulated profits of Colour Life, was credited to special reserve.
- (viii) In January 2018, Colour Life, of which shares are listed on the main board of The Stock Exchange of Hong Kong Limited, issued 87,246,000 new ordinary shares to existing shareholders. The net proceeds received by Colour Life is RMB352,296,000. The Group's percentage of equity interest in Colour Life was diluted from 50.39% to 46.53% upon completion of the issuance of shares. Under a concert party agreement entered into between the Company and Splendid Fortune Enterprise Limited ("Splendid Fortune"), a non-controlling shareholder of Colour Life, Splendid Fortune would follow the decision of the Company and the Company has 66.57% effective voting rights over Colour Life upon completion of the issuance of shares, thus the Company is able to exercise control over Colour Life and Colour Life is accounted for as subsidiary of the Company. The difference of RMB65,612,000 between the additional share of net assets of Colour Life by non-controlling shareholders and the net proceeds received by Colour Life on placement of new shares after taking into account of the relevant attributable accumulated profits of Colour Life, was recognised in special reserve.
- (ix) During the year ended 31 December 2018, the Group acquired additional interests in subsidiaries from the non-controlling shareholders at a total consideration of RMB143,467,000. The difference of RMB73,842,000 between the consideration paid by the Group and attributable equity interests in the subsidiaries was debited to special reserve.

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	3,036,919	2,566,918
Adjustments for:		
Change in fair value of investment properties	(136,802)	(966,184)
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	(82,409)	(118,589)
Change in fair value of financial assets at FVTPL	(939,273)	(4,457)
Release of prepaid lease payments	14,374	19,218
Release of premium on prepaid lease payments	13,671	23,990
Amortisation of intangible assets	139,925	32,199
Depreciation of property, plant and equipment	237,973	176,906
Share-based payment expenses	17,470	47,216
(Gain) loss on disposal of property, plant and equipment	(1,660)	3,146
Gain on disposal of subsidiaries	(1,273,824)	(326,285)
Gain on remeasurement of interests in joint ventures and AFS investments	(384,487)	(562,719)
Impairment losses, net of reversal	82,424	62,012
Impairment of goodwill	–	50,058
Interest income	(140,257)	(88,631)
Finance costs	1,464,674	1,279,587
Loss on repurchase/early redemption of senior notes and corporate bonds	975	116,933
Loss on modification of senior notes and corporate bonds	48,350	–
Net foreign exchange loss (gain)	770,222	(598,535)
Share of results of associates	(34,880)	(8,843)
Share of results of joint ventures	11,140	(167,670)
Operating cash flows before movements in working capital	2,844,525	1,536,270
Additions to prepaid lease payments	–	(45,001)
Increase in deposits paid for acquisitions of land use rights	(110,600)	–
Increase in properties for sale	(2,209,839)	(2,403,994)
Increase in inventories	(349,752)	(114,241)
(Increase) decrease in trade and other receivables	(4,458,370)	1,035,368
Increase in amounts due from customers for contract works	–	(30,452)
Increase in contract costs	(90,414)	–
Increase in contract assets	(324,330)	–
Increase in amounts due from related parties	–	(31,747)
Increase in trade and other payables	3,169,848	1,316,608
Increase in deposits received for sale of properties	–	2,226,994
Decrease in amounts due to customers for contract works	–	(2,968)
Increase in contract liabilities	5,526,208	–
(Decrease) increase in provisions	(9,391)	2,977
Others	(448)	(133,527)
Cash generated from operations	3,987,437	3,356,287
Income tax paid	(619,501)	(540,181)
Interest paid	(2,868,521)	(2,134,451)
NET CASH FROM OPERATING ACTIVITIES	499,415	681,655

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Placement of restricted/pledged bank deposits		(3,533,941)	(1,633,325)
Withdrawal of restricted/pledged bank deposits		3,292,625	1,524,597
Settlement of consideration payables on acquisition subsidiaries		(1,724,523)	(479,821)
Settlement of consideration receivables of disposal of subsidiaries		9,000	358,000
Purchases of property, plant and equipment		(309,641)	(502,890)
Proceeds from disposal of property, plant and equipment		19,023	6,314
Additions to investment properties		(199,381)	(1,721,268)
Proceeds from disposal of investment properties		542,890	867,448
Purchase of AFS investments		–	(107,951)
Purchases of financial assets at FVTPL		(87,923)	–
Redemption of financial assets at FVTPL		234,460	–
Purchases of equity instruments designated at FVTOCI		(35,188)	–
Investments in associates		(102,026)	(387,085)
Investments in joint ventures		(73,762)	(442,081)
Return of capital from deregistration of a joint venture		410,070	–
Disposal of associates		5,000	–
Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (net of cash and cash equivalents acquired)	45(a)	300,941	(835,525)
Acquisition of property operation businesses (net of cash and cash equivalents acquired)	45(b)	8,344	914,973
Deposits paid for potential acquisition of subsidiaries		(63,788)	(635,737)
Refund of deposits paid for acquisition of subsidiaries		–	849
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	46(a)	1,025,730	342,649
Disposal of partial interests in subsidiaries resulting in loss of control	46(c)	1,237,980	611,053
Dividend received from joint ventures and associates		4,851	10,396
Interest received		140,257	88,631
Advance of loan receivables		(189,327)	(71,611)
Repayment of loan receivables		233,644	322,017
Settlement of receivable from Chengdu Government		–	5,061
Advances to joint ventures		(103,256)	(7,160)
Advances to associates		(15,909)	(121,398)
Advance to a joint venturer		(960,020)	–
Advances to non-controlling shareholders of the subsidiaries of the Company		(290,760)	(82,932)
Repayment from joint ventures		283,414	–
Repayment from associates		27,567	15,365
Repayment from related parties		–	265,473
Repayment from a joint venturer		960,020	–
Repayment from non-controlling shareholders of the subsidiaries of the Company		1,024,342	12,450
Deposit paid for acquisition of a property project		(43,747)	(141)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		2,026,966	(1,683,649)

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES			
Net proceeds from the issuance of senior notes and bonds		9,505,647	5,419,191
Repayment of senior notes and bonds		(4,404,253)	(1,454,238)
Repurchase/early redemption of senior notes and bonds		(1,852,486)	(2,140,294)
Net proceeds from the issuance of asset-backed securities		98,236	–
Repayment of principal receipts under securitisation arrangements		(71,250)	(51,250)
New borrowings raised		11,210,791	7,215,981
Repayment of borrowings		(5,786,656)	(3,400,951)
Repayment of obligations under finance leases		(68,178)	(27,780)
Issue of shares upon exercise of share options		76,535	164
Dividend paid to shareholders of the Company		(329,217)	(250,049)
Dividend paid to non-controlling shareholders of the subsidiaries		(98,551)	(55,832)
Placement of new shares of Colour Life		352,296	–
Contributions from non-controlling shareholders of the subsidiaries		519,194	55,797
Acquisition of additional interest in subsidiaries		(143,467)	–
Deemed disposal of partial interests in subsidiaries without loss of control	46(b)	–	2,402,610
Repurchase of shares of Colour Life		(5,585)	(18,787)
Advances from joint ventures		–	24,500
Advances from associates		840,252	9,700
Advances from non-controlling shareholders of the subsidiaries of the Company		331,607	–
Repayments to joint ventures		(9,632)	(307,977)
Repayments to associates		(833,794)	(1,057,897)
NET CASH FROM FINANCING ACTIVITIES		9,331,489	6,362,888
NET INCREASE IN CASH AND CASH EQUIVALENTS		11,857,870	5,360,894
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		14,335,075	9,136,526
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		29,639	(162,345)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		26,222,584	14,335,075

For the year ended 31 December 2018

1. GENERAL

Fantasia Holdings Group Co., Limited (the “Company”) is a limited liability company incorporated in Cayman Islands and its shares are listed on the main board of The Stock Exchange of Hong Kong. Its parent and its ultimate parent are Fantasy Pearl International Limited and Ice Apex Limited, respectively, both being limited liability companies incorporated in the British Virgin Islands. Its ultimate controlling shareholder is Ms. Zeng Jie, Baby, who is a director of the Company. The addresses of the registered office and principal place of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 58.

The consolidated financial statements are presented in Renminbi, which is the functional currency of the Company and the major subsidiaries.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
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
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

Revenue of the Group mainly consists of revenue derived from the (i) sales of completed properties, (ii) provision of property agency services, (iii) property operation services, (iv) provision of hotel accommodation services, (v) provision of travel agency services and (vi) manufacturing and sale of fuel pumps.

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3, respectively.

Summary of effects arising from initial application of HKFRS 15

The following table summarises the impact of transition to HKFRS 15 on accumulated profits at 1 January 2018.

	Notes	Impact of adopting HKFRS 15 at 1 January 2018 RMB'000
Accumulated profits		9,258,307
Recognition of significant financing component	(a)	(92,835)
Recognition of contract costs	(b)	111,000
Tax effects	(a)&(b)	(4,542)
Impact relating to non-controlling interests		794
Impact at 1 January 2018	(g)	9,272,724

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 “Revenue from Contracts with Customers” (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	NOTES	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018 RMB'000 (note g)
Non-current Assets					
Deferred tax assets	(a)/(b)	461,990	–	13,708	475,698
Current Assets					
Properties for sale	(a)	23,777,966	–	9,919	23,787,885
Contract assets	(c)/(d)	–	125,627	–	125,627
Contract costs	(b)	–	–	111,000	111,000
Trade and other receivables	(c)	4,129,404	(21,548)	–	4,107,856
Amounts due from customers for contract works	(d)	104,079	(104,079)	–	–
Current Liabilities					
Trade and other payables	(f)	9,282,468	(497,536)	–	8,784,932
Deposits received for sale of properties	(e)	5,503,060	(5,503,060)	–	–
Amounts due to customers for contract works	(d)	13,778	(13,778)	–	–
Contract liabilities	(a)/(d)/(e)/(f)	–	6,014,374	102,754	6,117,128
Non-current Liabilities					
Deferred tax liabilities	(a)/(b)	1,754,528	–	18,250	1,772,778
Capital and Reserves					
Reserves	(a)/(b)	12,139,049	–	14,417	12,153,466
Non-controlling interests	(a)/(b)	5,061,114	–	(794)	5,060,320

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 “Revenue from Contracts with Customers” (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

Notes:

- (a) Certain property sales contracts of the Group contain significant financing component after taking into account the difference between the amount of promised consideration and the cash selling price of the property; and the combined effect of the expected length of time between the Group transferring the property to the customer and the customer paying for the property and the prevailing interest rates in the relevant market. The Group recognised the interest expense only to the extent that a contract liability (deposits received for sale of properties) is recognised in accounting for the contract with the customers and adjusted the promised amount of consideration by using a discount rate that would be reflected in a separate financing transaction between the Group and the customer reflecting the credit characteristics of the Group as well as any collateral or security provided. At the date of initial application, finance costs eligible for capitalisation amounting to RMB9,919,000 have been adjusted to properties for sale and finance costs not eligible for capitalisation of RMB85,802,000 and RMB7,033,000 have been debited to the accumulated profits and the non-controlling interests, respectively, with corresponding adjustment of RMB102,754,000 credited to contract liabilities. The corresponding tax effect has been recognised as deferred tax assets or liabilities, as appropriate.
- (b) The Group incurred incremental commission paid/payable to intermediaries/employees in connection with obtaining sales of properties contracts with customers. These amounts were previously expensed as incurred. At the date of initial application of HKFRS 15, incremental costs of obtaining contracts of RMB111,000,000 was recognised as contract costs with corresponding adjustments of RMB105,025,000 and RMB5,975,000 to accumulated profits and non-controlling interests, respectively. The corresponding tax effect has been recognised as deferred tax assets or liabilities, as appropriate.
- (c) At the date of initial application of HKFRS 15, trade and other receivables of RMB21,548,000, comprising retention receivables and unbilled revenue amounting to RMB679,000 and RMB20,869,000, respectively, which are to be released upon expiration of warranty period of property operation services, were reclassified to contract assets.
- (d) In relation to installation contracts previously accounted under HKAS 11, the Group continues to apply input method in estimating the performance obligation satisfied up to date of initial application of HKFRS 15. RMB104,079,000 and RMB13,778,000 of amounts due from and to customers for contract works were reclassified to contract assets and contract liabilities, respectively.
- (e) At the date of initial application of HKFRS 15, deposits received for sale of properties of RMB5,503,060,000, together with the significant financing component effect of RMB102,754,000 as set out in note (a) above, were reclassified to contract liabilities.
- (f) At the date of initial application of HKFRS 15, advances from customers of RMB497,536,000 included in trade and other payables were reclassified to contract liabilities.
- (g) The amounts are before the adjustments from the application of HKFRS 9.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 “Revenue from Contracts with Customers” (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following table summarise the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB’000	Reclassification RMB’000	Remeasurement RMB’000	Amounts without application of HKFRS 15 RMB’000
Non-current Assets				
Deferred tax assets	565,707	–	(64,189)	501,518
Current Assets				
Properties for sale	34,882,404	–	(389,777)	34,492,627
Contract assets	449,590	(449,590)	–	–
Contract costs	201,414	–	(201,414)	–
Trade and other receivables	5,938,028	45,211	–	5,983,239
Amounts due from customers for contract works	–	404,379	–	404,379
Current Liabilities				
Contract liabilities	13,039,071	(12,392,539)	(646,532)	–
Deposits received for sale of properties	–	12,064,741	–	12,064,741
Amounts due to customers for contract works	–	97,443	–	97,443
Trade and other payables	10,393,583	230,355	–	10,623,938
Non-current Liabilities				
Deferred tax liabilities	1,734,943	–	(50,354)	1,684,589
Capital and Reserves				
Reserves	12,465,583	–	35,145	12,500,728
Non-controlling interests	6,490,981	–	6,361	6,497,342

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 “Revenue from Contracts with Customers” (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the consolidated statement of profit or loss and other comprehensive income

	As reported RMB'000	Remeasurement RMB'000	Amounts without application of HKFRS 15 RMB'000
Revenue	13,986,133	(83,522)	13,902,611
Cost of sales and services	(9,802,167)	172,327	(9,629,840)
Gross profit	4,183,966	88,805	4,272,771
Selling and distribution expenses	(439,032)	(254,776)	(693,808)
Finance costs	(1,464,674)	239,477	(1,225,197)
Profit before tax	3,036,919	73,506	3,110,425
Income tax expense	(1,868,735)	(18,377)	(1,887,112)
Profit for the year	1,168,184	55,129	1,223,313
Total comprehensive income for the year	1,168,006	55,129	1,223,135
Profit for the year attributable to:			
Owners of the Company	728,339	49,562	777,901
Other non-controlling interests	439,845	5,567	445,412
Total comprehensive income attributable to:			
Owners of the Company	728,233	49,562	777,795
Other non-controlling interests	439,773	5,567	445,340

Impact on the consolidated statement of cash flows

	As reported RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Amounts without application of HKFRS 15 RMB'000
Operating activities				
Profit before tax	3,036,919	–	73,506	3,110,425
Increase in properties for sale	(2,209,839)	–	379,858	(1,829,981)
Increase in trade and other receivables	(4,458,370)	(24,030)	–	(4,482,400)
Increase in amounts due from customers for contract works	–	(300,300)	–	(300,300)
Increase in contract assets	(324,330)	324,330	–	–
Increase in contract costs	(90,414)	–	90,414	–
Increase in trade and other payables	3,169,848	(267,181)	–	2,902,667
Increase in amounts due to customers for contract works	–	83,665	–	83,665
Increase in deposits received for sale of properties	–	5,165,946	–	5,165,946
Increase in contract liabilities	5,526,208	(4,982,430)	(543,778)	–

The explanations of the above changes affected in the current period by the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related interpretations are set out in notes (a) to (f) above for describing the adjustments made to the consolidated statement of financial position at 1 January 2018 upon the adoption of HKFRS 15.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 at the date of initial application, 1 January 2018.

	NOTES	Available-for-sale investments RMB'000	Financial assets at FVTPL required by HKAS 39/ HKFRS 9 RMB'000 (note b)	Equity instruments designated at FVTOCI RMB'000	Financial assets at amortised cost (previously classified as loans and receivables) RMB'000	Contract assets RMB'000	Deferred tax assets RMB'000	Accumulated profits RMB'000	Non-controlling interests RMB'000
Closing balance at 31 December 2017 – under HKAS 39		117,663	234,460	–	21,759,577	–	461,990	9,258,307	5,061,114
Effect arising from initial application of HKFRS 15		–	–	–	(21,548)	125,627	13,708	14,417	(794)
Effect arising from initial application of HKFRS 9:									
Reclassification									
From AFS investments	(a)	(117,663)	–	117,663	–	–	–	–	–
Remeasurement									
Impairment under ECL model	(c)	–	–	–	(11,537)	(2,983)	3,630	(10,134)	(756)
Opening balance at 1 January 2018		–	234,460	117,663	21,726,492	122,644	479,328	9,262,590	5,059,564

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 “Financial Instruments” (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

Notes:

(a) AFS investments

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as AFS investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB117,663,000 were reclassified from AFS investments to equity instruments designated at FVTOCI, which were related to unquoted equity investments previously measured at cost less impairment under HKAS 39. No fair value change relating to those unquoted equity investments was adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

(b) Financial assets at FVTPL

Financial assets at FVTPL are securities investments and derivatives which is managed and its performance is evaluated on a fair value basis and they are required to be measured at FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. Except for those which had been determined as credit impaired under HKAS 39, trade receivables and contract assets are grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Loss allowance for other financial assets at amortised cost, including restricted/pledged bank deposits, bank balances, other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition .

As at 1 January 2018, the additional credit loss allowance of RMB14,520,000, after net of deferred tax effect of RMB3,630,000, has been recognised against accumulated profits and non-controlling interests of RMB10,134,000 and RMB756,000, respectively. The additional loss allowance is charged against the respective assets.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 “Financial Instruments” (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

Notes: (continued)

(c) Impairment under ECL model (continued)

All loss allowances including contract assets and trade and other receivables as at 31 December 2017 reconcile to the opening loss allowances as at 1 January 2018 is as follows:

	Contract assets RMB'000	Trade and other receivables RMB'000
At 31 December 2017		
– under HKAS 39	–	188,952
Reclassification	9,448	(9,448)
Amounts remeasured through opening accumulated profits/non-controlling interests	2,983	11,537
At 1 January 2018	12,431	191,041

2.3 Amendments to HKAS 40 “Transfers of Investment Property”

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards
As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be adjusted. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB’000	HKFRS 15 RMB’000	HKFRS 9 RMB’000	1 January 2018 (Adjusted) RMB’000
Non-current Assets				
Equity instruments designated at FVTOCI	–	–	117,663	117,663
AFS investments	117,663	–	(117,663)	–
Deferred tax assets	461,990	13,708	3,630	479,328
Current Assets				
Properties for sale	23,777,966	9,919	–	23,787,885
Contract assets	–	125,627	(2,983)	122,644
Contract costs	–	111,000	–	111,000
Trade and other receivables	4,129,404	(21,548)	(11,537)	4,096,319
Amounts due from customers for contract works	104,079	(104,079)	–	–
Current Liabilities				
Trade and other payables	9,282,468	(497,536)	–	8,784,932
Deposits received for sale of properties	5,503,060	(5,503,060)	–	–
Amounts due to customers for contract works	13,778	(13,778)	–	–
Contract liabilities	–	6,117,128	–	6,117,128
Net Current Assets	19,553,844	18,165	(14,520)	19,557,489
Total Assets Less Current Liabilities	42,061,628	31,873	(10,890)	42,082,611
Non-current Liabilities				
Deferred tax liabilities	1,754,528	18,250	–	1,772,778
Net Assets	17,698,031	13,623	(10,890)	17,700,764
Capital and Reserves				
Reserves	12,139,049	14,417	(10,134)	12,143,332
Equity attributable to owners of the Company	12,636,917	14,417	(10,134)	12,641,200
Non-controlling interests	5,061,114	(794)	(756)	5,059,564
Total Equity	17,698,031	13,623	(10,890)	17,700,764

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the Group’s consolidated financial statements in the foreseeable future.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 “Leases” (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature as appropriate.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB170,961,000 as disclosed in note 50. A preliminary assessment indicates that these arrangements would meet the definition of a lease. Upon application of HKFRS 16, the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received, as rights and obligations under leases to which HKAS 17 applies were insignificant.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17. Therefore, the Group would not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening retained profits, if any, without restating comparative information.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset take into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair value, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for the goodwill arising on the acquisition of associates and joint ventures is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate and joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group’s share of losses of an associate or a joint venture exceeds the Group’s interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 “Impairment of Assets” as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint venture, it is accounted for as disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest in a financial asset within the scope of HKFRS 9/ HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint ventures and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal or partial disposal of the relevant associate or joint venture.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

For property management services, value added services, hotel accommodation services and travel agency services, the progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

For construction of properties and engineering services, the progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (mainly sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Warranties

The Group accounts for the warranty in accordance with HKAS 37 “Provision, Contingent Liabilities and Contingent Assets”, as the Group provides assurance that the product complies with agreed-upon specifications and the customer does not have the option to purchase a warranty separately.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, other similar allowances and sale-related tax in PRC.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

Sale of properties

Revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

Property management service, value-added service and travel agency service

The service income are recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Construction contract revenue

Where the outcome of the construction contract revenue can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works.

Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received included in other payables. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Hotel operation

Revenue from hotel accommodation, hotel management and related services, food and beverage sales and other ancillary services is recognised when the services are rendered.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

Interest income

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as own assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Buildings under development for future owner occupied purpose

When buildings are in the course of development for production, or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs and interest expense incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible assets, intangible assets and contract costs other than goodwill (see accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an assets individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating units) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties for sale

Completed properties and properties under development for sale in the ordinary course of business are included in current assets and stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses. Cost of each unit in each phase of development is determined using the weighted average method.

Net realisable value represents the estimated selling price for properties for sale less all estimated costs of completion and costs necessary to make the sale.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair values of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures, restricted/pledged bank deposits and bank balances and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL (continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis. Details of the basis were set out in note 49(b).

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and financial guarantee contracts where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: loans and receivables, financial assets at FVTPL and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, (ii) it is at FVTPL or (iii) contingent consideration that may be paid by an acquirer as part of a business combination.

A financial asset is classified as held for trading if:

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

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

(i) Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gain and losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 20.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investment or (c) financial assets at FVTPL.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures, restricted/pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, contract assets and payments on behalf of residents, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to FVTOCI reserve.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities including trade and other payables, amounts due to associates, joint ventures and non-controlling shareholders of subsidiaries of the Company, borrowings, senior notes and bonds and asset-backed securities issued, are subsequently measured at amortised cost, using the effective interest method.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- (i) the amount of the obligation under the contract, as determined in accordance with HKFRS 9 (since 1 January 2018) and HKAS 37 “Provision, Contingent Liabilities and Contingent Assets” (before application of HKFRS 9 on 1 January 2018); and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition/substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities’ original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Senior notes and bonds and asset-backed securities issued

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.

Bonds and asset-backed securities issued by the subsidiaries of the Company that contain both liability and put option (which is closely related to the host contracts) are not separated into host contract and embedded derivatives on initial recognition. At the date of issue, the bonds and asset-backed securities issued are recognised at fair value.

In subsequent periods, the liability component of the senior notes, bonds and asset-backed securities issued are carried at amortised cost using the effective interest method. The early redemption option of senior notes is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that related to the issue of the senior notes and bonds and asset-backed securities issued are included in the carrying amount of the senior notes and bonds and asset-backed securities issued and amortised over the period of the senior notes and bonds and asset-backed securities issued using the effective interest method.

Scheme-based Payments

Equity-settled share-based payment transactions

Share options scheme

Equity-settled share-based payments to employees are measured at fair value of equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on assessment of all the relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy above).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Group makes payments for a property interest which a lease includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance leases.

Prepaid lease payments

The prepaid lease payments represent upfront payments for land use rights for the purpose of development of properties for sale or for use in the production or supply of goods or services, and are initially recognised at cost and released to profit or loss over the remaining lease term on a straight-line basis. The prepaid lease payments in respect of development of projects for sale whereby the construction work is expected to complete beyond normal operating cycle are classified under non-current assets.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Premium on prepaid lease payments

The premium on prepaid lease payments represent the excess of the consideration paid over the carrying amount of the prepaid lease payments in respect of leasehold lands in the PRC acquired through acquisition of assets and liabilities through acquisition of subsidiaries and released to profit or loss over the remaining lease term on a straight-line basis. The premium on prepaid lease payments in respect of projects whereby the construction work is expected to complete beyond normal operating cycle are classified under non-current assets.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

Borrowing costs

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Employee Benefits

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from services cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As at 31 December 2018, the carrying amount of deferred taxation on investment properties is RMB1,450,400,000 (2017: RMB1,403,903,000).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of net realisable value of properties for sale

Properties for sale are stated at the lower of cost and net realisable value with an aggregate carrying amount of RMB34,882,404,000 (2017: RMB23,777,966,000). Cost, including the cost of land, development expenditures, borrowing costs capitalised in accordance with the Group's accounting policy and other attributable expenses, are allocated to each unit in each phase based on saleable gross floor area, using the weighted average method. The net realisable value is the estimated selling price (based on prevailing real estate market conditions in the PRC) less estimated selling expenses and estimated cost to completion (if any), which are determined based on best available information. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, there may be written down on the properties under development for sale and completed properties for sale.

Fair value measurements and valuation processes

The investment properties of the Group amounting to RMB10,515,977,000 (2017: RMB10,194,164,000) are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation team, which is headed up by the chief financial officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an investment property, the Group uses market-observable data to the extent it is available. The Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the valuation team's findings to the board of directors of the Company periodically to explain the cause of fluctuations in the fair value of the investment properties. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of investment properties. Note 16 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties of the Group.

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated which is the higher of the value in use and fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit based on five-year financial budgets approved by the management of the Group and a suitable discount rate in order to calculate the present value. The Group engages an independent valuer to assist the estimation. The valuation team of the Group works closely with the independent valuer to establish the appropriate estimation model and inputs to the model. Key estimates involved in the preparation of cash flow projections for the period covered by the approved financial budgets include the growth rates, discount rates and expected future cash inflows/outflows including revenue, gross profit and operating expenses estimated. The cash flows beyond the five-year period are extrapolated using zero growth rate. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of expected future cash inflows due to unfavourableness, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill net of accumulated impairment loss of RMB81,574,000 (2017: RMB81,574,000) was amounted to RMB2,339,723,000 (2017: RMB2,299,758,000).

Estimated impairment of intangible assets

Intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of the cash-generating units to which intangible assets have been allocated exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value-in-use calculation requires the Group to estimate the future cash flows from the assets of cash-generating unit and a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of intangible assets net of accumulated impairment loss was RMB1,188,896,000 (2017: RMB1,319,901,000).

Fair value measurement of a debt instrument included in financial assets at FVTPL

A debt instrument included the Group's financial assets at FVTPL amounting to RMB2,038,000,000 as at 31 December 2018 (2017: nil) are measured at fair values with fair values being determined based on unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See notes 20 and 49(c) for further disclosures.

Provision of ECL for contract assets and payments on behalf of residents included in trade and other receivables

The Group uses provision matrix to calculate ECL for the contract assets and payments on behalf of residents included in trade and other receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As at 31 December 2018, the gross carrying amounts of contract assets and payments on behalf of residents were RMB462,388,000 and RMB910,966,000, respectively, and the balances of allowance for credit losses were RMB12,798,000 and RMB122,911,000, respectively.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's contract assets and payments on behalf of residents are disclosed in note 49.

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables except that trade receivables with significant balances and credit impaired are assessed for ECL individually. The provision rates are based on internal credit ratings as groupings of various debtors by their aging, which are considered of similar loss pattern. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As at 31 December 2018, the gross carrying amount of trade receivables was RMB2,020,002,000 and the balance of allowance for credit losses was RMB62,875,000.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 49.

Land appreciation tax

The Group is subject to LAT in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Group have not finalised their LAT calculations and payments with any local tax authorities in the PRC. Accordingly, significant estimate is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the LAT based on the management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with the local tax authorities.

As explained in above, the carrying amounts of investment properties are presumed to be recovered entirely through sale, as such deferred tax charge on the fair value change of investment properties has taken into account the LAT payable upon the disposal of these properties.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit or taxable temporary difference will be available against which the tax losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits or taxable temporary difference together with future tax planning strategies. As at 31 December 2018, the carrying amount of deferred tax assets recognised for unused tax losses was RMB152,551,000 (2017: RMB151,538,000).

Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties for sale and charged to the consolidated statement of profit or loss and other comprehensive income upon the recognition of the sales of the properties. Before the final settlement of the development costs and other costs relating to the sales of the properties, these costs are accrued by the Group based on the management's best estimate. During the development stage, the Group typically divides the development projects into phases. Costs that are common to different phases are allocated to individual phase based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

For the year ended 31 December 2018

5. REVENUE FROM GOODS AND SERVICES

For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018					
	Property development RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Types of goods and services						
<u>Property development</u>						
Sales of completed properties	7,695,367	-	-	-	-	7,695,367
Construction of properties	859,141	-	-	-	-	859,141
<u>Property agency services</u>						
Provision of property agency services	-	129,666	-	-	-	129,666
<u>Property operation services</u>						
Provision of property management services	-	-	3,601,065	-	-	3,601,065
Provision of value-added services	-	-	340,311	-	-	340,311
Provision of engineering services	-	-	216,190	-	-	216,190
<u>Hotel operations</u>						
Provision of hotel accommodation services	-	-	-	135,700	-	135,700
<u>Others</u>						
Manufacturing and sales of fuel pumps	-	-	-	-	414,400	414,400
Provision of travel agency services	-	-	-	-	341,784	341,784
	8,554,508	129,666	4,157,566	135,700	756,184	13,733,624
Timing of revenue recognition						
A point in time	7,695,367	129,666	-	-	414,400	8,239,433
Over time	859,141	-	4,157,566	135,700	341,784	5,494,191
	8,554,508	129,666	4,157,566	135,700	756,184	13,733,624

For the year ended 31 December 2018

5. REVENUE FROM GOODS AND SERVICES (continued)

For the year ended 31 December 2018 (continued)

(i) Disaggregation of revenue from contracts with customers (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Segments	For the year ended 31 December 2018						
	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
Revenue disclosed in segment information							
External customers	8,554,508	252,509	129,666	4,157,566	135,700	756,184	13,986,133
Inter-segment	13,906	2,727	–	118,078	–	–	134,711
	8,568,414	255,236	129,666	4,275,644	135,700	756,184	14,120,844
Elimination	(13,906)	(2,727)	–	(118,078)	–	–	(134,711)
Rental income	–	(252,509)	–	–	–	–	(252,509)
Revenue from contracts with customers	8,554,508	–	129,666	4,157,566	135,700	756,184	13,733,624

(ii) Performance obligations for contracts with customers

The Group recognises revenue from goods and services from the following major sources:

- Sales of completed properties;
- Construction of properties;
- Provision of property agency services;
- Provision of property management services;
- Provision of value-added services;
- Provision of engineering services;
- Provision of hotel accommodation services;
- Provision of travel agency services; and
- Manufacturing and sales of fuel pumps.

For the year ended 31 December 2018

5. REVENUE FROM GOODS AND SERVICES (continued)

For the year ended 31 December 2018 (continued)

(ii) Performance obligations for contracts with customers (continued)

For sales of completed properties, the Group presold the properties under construction and receives deposits from customers. Revenue is recognised at a point in time when the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

For construction of properties, the Group constructs the properties for customers. The construction is recognised as performance obligation satisfied over time as the Group is recognised over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for the construction based on the stage of completion of the contract using input method.

For provision of property agency services, agency commission is recognised at a point in time when a buyer and seller execute a legally binding sale agreement and performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

Property management services mainly include property management services under lump sum basis, commission basis and at pre-delivery stage. For property management services, the Group bills a fixed rate for services provided on a monthly/regular basis and recognises as revenue in the amount to which the Group has a right to invoice and that corresponds directly with the value of performance completed.

For property management services income from properties managed under lump sum basis, where the Group acts as principal and is primary responsible for providing the property management services to the property owners. As the property owners simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs, the Group recognises the fee received or receivable from property owners as its revenue over time and all related property management costs as its cost of services.

For property management services income from properties managed under commission basis, the Group recognises the commission for providing the property management services to the property management offices of residential communities, which is calculated by certain percentage of the total property management fee charged to the property owners. As the property management offices of residential communities simultaneously receives and consumes the benefit provided by the Group's performance as the Group renders property management services, the Group recognises the fee received or receivables from property management offices of residential communities as its revenue for arranging and monitoring the services as provided by other suppliers to the property management offices of residential communities over time.

For property management services income at pre-delivery stage, where the Group acts as principal and is primary responsible for providing the property management services for the property developers. As the property developers simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs, the Group recognises the fee received or receivable from property developers as its revenue over time and all related property management costs as its cost of services.

For the year ended 31 December 2018

5. REVENUE FROM GOODS AND SERVICES (continued)

For the year ended 31 December 2018 (continued)

(ii) Performance obligations for contracts with customers (continued)

For consultancy services income for residential communities under consultancy service arrangement, where the Group acts as principal and is primary responsible for providing the consultancy services for the property management companies. As the property management companies simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs. The Group agrees the fee for services with the property management companies upfront and recognises the fee received or receivable from the property management companies, as its revenue over time and all related property management costs as its cost of services.

For value-added services, the Group agrees the fixed rate for services with the customers upfront and issues the bill on a monthly/regular basis to the customers which varies based on the actual level of service completed in that month/period. As the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, the revenue is recognised over time when the performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

For engineering services, the Group's performance creates or enhances an asset or work in progress that the customers control as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of satisfaction of the performance obligation.

For provision of hotel accommodation services, the Group agrees the fixed rate for services with the customers upfront. As the customer simultaneously receives and consumes the benefits provided by the Group's performance, the revenue is recognised over time when the performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

For provision of travel agency services, the Group agrees the fixed fee income for tour services provided by the Group with the customers upfront. As the customer simultaneously receives and consumes the benefits provided by the Group's performance, thus the revenue is recognised over time when the performance obligations are satisfied.

For manufacturing and sales of fuel pumps, revenue is recognised at a point in time when the customer obtains the control of the fuel pumps, the Group has present right to payment and the collection of the consideration is probable.

For the year ended 31 December 2018

5. REVENUE FROM GOODS AND SERVICES (continued)

For the year ended 31 December 2018 (continued)

- (iii) Transaction price allocated to the remaining performance obligation for contracts with customers
The transaction price allocated to the remaining unsatisfied performance obligations as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Sales of completed properties RMB'000	Construction of properties RMB'000
Within one year	8,521,560	566,627
More than one year	10,331,103	–
	18,852,663	566,627

The performance obligation of property agency services, property management services, value-added services, engineering services, hotel accommodation services, travel agency services and manufacturing and sales of fuel pumps are parts of the contracts that have an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts in relation to these services is not disclosed.

For the year ended 31 December 2017

Revenue from major services for the year ended 31 December 2017 is set out in note 6.

6. SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of the different products and services supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the directors of the Company, the chief operating decision makers, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by different type of products sold and services rendered.

The Group has six reportable and operating segments, comprising of property development, property investment, property agency services, property operation services, hotel operation and others (including travel agency services and manufacturing and sale of fuel pumps).

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of interest income, change in fair value of financial assets at FVTPL, gain on remeasurement of interests in joint ventures and AFS investments, net exchange loss/gain, loss on repurchase, early redemption and modification of senior notes and corporate bonds, loss on settlement of defined benefit obligation, share-based payment expenses, finance costs, share of results of associates and joint ventures, gain on disposal of subsidiaries, central administration costs and directors' salaries. This is a measure reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance.

Inter-segment revenues are charged at prevailing market rate.

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision makers also review the segment assets attributable to each operating segment, which comprises assets other than interests in associates and joint ventures, AFS investments/equity instruments designated at FVTOCI, financial assets at FVTPL, amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures, restricted/pledged bank deposits, bank balances and cash and other corporate assets.

The following is an analysis of the Group's revenue, results and other material items by operating and reportable segment under review:

For 31 December 2018

	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
External revenues	8,554,508	252,509	129,666	4,157,566	135,700	756,184	13,986,133
Inter-segment revenues	13,906	2,727	–	118,078	–	–	134,711
Segment results	1,439,402	351,727	83,540	901,975	(5,035)	(99,159)	2,672,450
Segment assets	37,865,715	10,652,307	18,808	7,565,411	1,100,918	2,741,429	59,944,588
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets (note)	362,248	390,004	8,223	155,519	2,325	177,995	1,096,314
Change in fair value of investment properties	–	136,802	–	–	–	–	136,802
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	82,409	–	–	–	–	–	82,409
Release of prepaid lease payments	13,868	–	–	–	506	–	14,374
Release of premium on prepaid lease payments	13,671	–	–	–	–	–	13,671
Amortisation of intangible assets	–	–	–	136,428	–	3,497	139,925
Depreciation of property, plant and equipment	65,287	4,245	3,423	52,908	36,982	69,446	232,291
Gain on disposal of property, plant and equipment	(1,473)	–	–	(187)	–	–	(1,660)
Allowance for impairment losses, net of reversal	28,981	–	–	53,443	–	–	82,424

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

For 31 December 2017

	Property development RMB'000	Property investment RMB'000	Property agency services RMB'000	Property operation services RMB'000	Hotel operations RMB'000	Others RMB'000	Total RMB'000
External revenues	6,598,470	243,187	57,967	2,015,378	134,033	733,533	9,782,568
Inter-segment revenues	15,970	–	–	84,327	–	–	100,297
Segment results	877,444	1,088,765	23,036	504,902	(5,802)	(171,252)	2,317,093
Segment assets	27,731,514	10,354,247	16,391	6,351,341	1,089,959	2,483,425	48,026,877
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets (note)	473,440	2,542,869	30	2,764,961	9,782	163,178	5,954,260
Change in fair value of investment properties	–	966,184	–	–	–	–	966,184
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	118,589	–	–	–	–	–	118,589
Release of prepaid lease payments	18,200	–	–	–	1,018	–	19,218
Release of premium on prepaid lease payments	23,990	–	–	–	–	–	23,990
Impairment of goodwill	–	–	–	–	–	50,058	50,058
Amortisation of intangible assets	–	–	–	28,703	–	3,496	32,199
Depreciation of property, plant and equipment	49,939	1,178	1,960	42,112	35,084	41,903	172,176
Loss on disposal of property, plant and equipment	–	–	–	3,146	–	–	3,146
Allowance for impairment losses, net of reversal, on trade and other receivables	11,840	–	–	50,172	–	–	62,012

Note: Additions to non-current assets exclude interests in associates and joint ventures, AFS investments/equity instruments designated at FVTOCI, financial assets at FVTPL, deposits paid for acquisition of land use rights, subsidiaries and a property project, other receivables (non-current) and deferred tax assets.

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

Reconciliation:

	2018 RMB'000	2017 RMB'000
Revenue:		
Total revenue for operating and reportable segments	14,120,844	9,882,865
Elimination of inter-segment revenues	(134,711)	(100,297)
Group's total revenue	13,986,133	9,782,568
Total segment results		
Elimination of inter-segment results	(32,872)	(13,470)
Unallocated amounts:		
Interest income	140,257	88,631
Net exchange (loss) gain	(740,583)	598,535
Change in fair value of financial assets at FVTPL	939,273	4,457
Share-based payment expenses	(17,470)	(47,216)
Finance costs	(1,464,674)	(1,279,587)
Share of results of associates and joint ventures	23,740	176,513
Gain on disposal of subsidiaries	1,273,824	326,285
Gain on remeasurement of interests in joint ventures and AFS investments	384,487	562,719
Loss on repurchase/early redemption of senior notes and bonds	(975)	(116,933)
Loss on modification of senior notes and bonds	(48,350)	–
Other unallocated expenses	(92,188)	(50,109)
Profit before tax	3,036,919	2,566,918
	2018 RMB'000	2017 RMB'000
Assets:		
Total assets for operating and reportable segments	59,944,588	48,026,877
Unallocated assets:		
Interests in associates	1,346,586	1,174,908
Interests in joint ventures	1,426,958	1,060,057
AFS investments	–	117,663
Equity instruments designated at FVTOCI	51,551	–
Amounts due from non-controlling shareholders of the subsidiaries of the Company	319,230	1,052,812
Amounts due from associates	15,909	27,567
Amounts due from joint ventures	182,777	362,935
Financial assets at FVTPL	2,127,196	234,460
Restricted/pledged bank deposits	2,347,868	2,106,552
Bank balances and cash	26,222,584	14,335,075
Other unallocated corporate assets	460,824	457,834
Group's total assets	94,446,071	68,956,740

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

The Group's revenue from external customers is derived solely from its operations in the PRC, and non-current assets of the Group are mainly located in the PRC and the United States of America (the "USA").

During the years ended 31 December 2018 and 2017, there was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

As the Group's segment liabilities are not regularly reviewed by the chief operating decision makers, the liabilities for each operating segment is therefore not presented.

	2018 RMB'000	2017 RMB'000
<i>Additions to non-current assets</i>		
Reportable segment total	1,096,314	5,954,260
Unallocated amount	764	4,979
Group's total	1,097,078	5,959,239
<i>Depreciation of property, plant and equipment</i>		
Reportable segment total	232,291	172,176
Unallocated amount	5,682	4,730
Group's total	237,973	176,906

7. OTHER INCOME, GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
<u>Other income</u>		
Interest income	140,257	88,631
Unconditional government grants	9,392	11,341
	149,649	99,972
<u>Other gains and losses</u>		
Change in fair value of financial assets at FVTPL	939,273	4,457
Gain on remeasurement of interests in joint ventures and AFS investments (note 45(a) and (b))	384,487	562,719
Net exchange (loss) gain	(740,583)	598,535
Loss on repurchase/early redemption of senior notes and bonds	(975)	(116,933)
Loss on modification of senior notes and bonds	(48,350)	-
Loss on settlement of defined benefit obligation (note)	-	(107,014)
Gain (loss) on disposal of plant, property and equipment	1,660	(3,146)
Impairment of goodwill (note 21)	-	(50,058)
Others	26,361	20,517
	561,873	909,077

Note: ASIMCO Tianwei Fuel Injection Equipment Stock (Beijing) Co., Ltd. (北京亞新科天緯油泵油嘴股份有限公司), a previously non-wholly owned subsidiary of the Company, adopted an employee benefit scheme to pay post-employment benefits to its eligible employees. During the year ended 31 December 2017, after negotiation with the existing employees, the Group entered into termination contracts with certain existing employees and settled their severance payment. Upon settlement of the severance payments, the related post-employment obligations were extinguished and loss of settlement of defined benefit obligations amounting to RMB107,014,000 was recognised in profit or loss during the year ended 31 December 2017.

For the year ended 31 December 2018

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018	2017
	RMB'000	RMB'000
Impairment loss recognised on		
– trade and other receivables	(82,057)	(62,012)
– contract assets	(367)	–
	(82,424)	(62,012)

Details of impairment assessment recognised on trade and other receivables and contract assets for the year ended 31 December 2018 are set out in note 49.

9. FINANCE COSTS

	2018	2017
	RMB'000	RMB'000
Interest on:		
– bank and other borrowings	1,208,428	602,953
– senior notes and bonds	1,942,299	1,649,157
– finance leases	15,631	4,815
– asset-backed securities issued	22,083	19,332
Imputed interest expenses arising from deposits received from sales of properties	627,300	–
Other finance costs	13,442	21,036
	3,829,183	2,297,293
Less: Amount capitalised in properties under development for sale	(2,303,626)	(995,433)
Amount capitalised in investment properties under construction	(59,855)	(20,523)
Amount capitalised in construction in progress	(1,028)	(1,750)
	1,464,674	1,279,587

During the year ended 31 December 2018, certain amounts of finance costs capitalised arose from the general borrowing pool and were calculated by applying the capitalisation rate of 9.9% per annum (2017: 9.1% per annum) to expenditures on qualifying assets.

For the year ended 31 December 2018

10. PROFIT BEFORE TAXATION

	2018	2017
	RMB'000	RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' emoluments (note 12)	17,656	17,691
Other staff's salaries and allowances	1,527,422	926,644
Defined benefit scheme costs	60	3,818
Retirement benefit scheme contributions	249,811	148,702
Share-based payments	17,218	47,216
Total staff costs	1,812,167	1,144,071
Less: Amount capitalised in properties under development for sale	(287,202)	(230,522)
	1,524,965	913,549
Auditor's remuneration	5,400	5,200
Release of prepaid lease payments	14,374	19,218
Release of premium on prepaid lease payments	13,671	23,990
Depreciation of property, plant and equipment	237,973	176,906
Amortisation of intangible assets	139,925	32,199
(Gain) loss on disposal of property, plant and equipment	(1,660)	3,146
Cost of properties sold recognised as an expense	5,960,570	4,685,371
Gross rental income from investment properties	(252,509)	(243,187)
Less: Direct operating expenses from investment properties that generated rental income	15,767	15,209
	(236,742)	(227,978)
Rental expenses in respect of rented premises under operating leases	21,317	50,675

11. INCOME TAX EXPENSE

	2018	2017
	RMB'000	RMB'000
Current tax in the PRC		
PRC enterprise income tax ("EIT")	893,103	350,960
LAT	803,119	557,584
	1,696,222	908,544
Deferred tax (note 29)		
Charge to profit and loss	172,513	248,663
	1,868,735	1,157,207

For the year ended 31 December 2018

11. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the income of the Group neither arises in nor is derived from Hong Kong.

The Group's EIT is calculated based on the applicable tax rate on assessable profits, if applicable.

LAT 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 cost of land use rights and all property development expenditures.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	NOTES	2018 RMB'000	2017 RMB'000
Profit before tax		3,036,919	2,566,918
Tax at PRC EIT rate of 25% (2017: 25%)	(a)	759,230	641,730
Tax effect of share of results of associates and joint ventures		(5,935)	(44,129)
Tax effect of income not taxable for tax purpose		(227,411)	(302,568)
Tax effect of expenses not deductible for tax purpose	(b)	575,069	292,328
Tax effect of tax losses not recognised		240,485	190,431
Utilisation of tax losses previously not recognised		(28,352)	(17,068)
LAT		803,119	557,584
Tax effect of LAT		(200,780)	(139,396)
Tax effect of tax rate differential of certain subsidiaries with preferential tax rate		(49,584)	(22,921)
Others		2,894	1,216
Income tax expense for the year		1,868,735	1,157,207

Notes:

- (a) Majority of the assessable profits of the Group were derived from subsidiaries situated in the PRC and the applicable EIT rate of those subsidiaries is 25%.
- (b) The amounts for the years ended 31 December 2018 and 2017 mainly represented the tax effect of expenses incurred by offshore companies, including the interest on senior notes, share-based payment expenses, exchange loss (gain), loss on repurchase/early redemption of senior notes and bonds, loss on modification of senior notes and bonds, impairment of goodwill and professional fees.

For the year ended 31 December 2018

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATIONS

The emoluments paid or payable to the directors and the chief executive disclosed pursuant to the applicable Listing Rules and CO were as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2018						
<i>Executive directors:</i>						
Mr. Pan Jun (潘軍) (note i)	-	4,913	900	72	188	6,073
Ms. Zeng Jie, Baby (曾寶寶)	-	4,913	900	72	-	5,885
Mr. Deng Bo (鄧波)	-	2,072	402	72	-	2,546
Mr. Lam Kam Tong (林錦堂) (note iv)	-	1,300	-	-	-	1,300
<i>Non-executive directors:</i>						
Mr. Li Dongsheng (李東生)	240	-	-	-	-	240
Mr. Liao Qian (廖騫)	240	-	-	-	-	240
Mr. Lam Kam Tong (林錦堂) (note iv)	108	-	-	-	-	108
<i>Independent non-executive directors:</i>						
Mr. Ho Man (何敏)	240	-	-	-	-	240
Mr. Huang Ming (黃明)	240	-	-	-	-	240
Mr. Liao Jianwen (廖建文)	240	-	-	-	64	304
Ms. Wong Pui Sze, Priscilla (王沛詩)	240	-	-	-	-	240
Mr. Guo Shaomu (郭少牧)	240	-	-	-	-	240
	1,788	13,198	2,202	216	252	17,656
For the year ended 31 December 2017						
<i>Executive directors:</i>						
Mr. Pan Jun (潘軍) (note i)	-	4,720	514	75	-	5,309
Ms. Zeng Jie, Baby (曾寶寶)	-	4,720	514	75	-	5,309
Mr. Lam Kam Tong (林錦堂)	-	2,622	795	-	-	3,417
Mr. Zhou Jinquan (周錦泉) (note ii)	-	-	-	-	-	-
Mr. Deng Bo (鄧波) (note iii)	-	1,711	190	75	-	1,976
<i>Non-executive directors:</i>						
Mr. Li Dongsheng (李東生)	240	-	-	-	-	240
Mr. Yuan Haodong (袁浩東) (note ii)	60	-	-	-	-	60
Mr. Liao Qian (廖騫) (note iii)	180	-	-	-	-	180
<i>Independent non-executive directors:</i>						
Mr. Ho Man (何敏)	240	-	-	-	-	240
Mr. Huang Ming (黃明)	240	-	-	-	-	240
Mr. Liao Jianwen (廖建文)	240	-	-	-	-	240
Ms. Wong Pui Sze, Priscilla (王沛詩)	240	-	-	-	-	240
Mr. Guo Shaomu (郭少牧)	240	-	-	-	-	240
	1,680	13,773	2,013	225	-	17,691

For the year ended 31 December 2018

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATIONS (continued)

Notes:

- (i) Mr. Pan Jun is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.
- (ii) Mr. Zhou Jinquan and Mr. Yuan Haodong resigned on 17 January 2017 and 31 March 2017, respectively.
- (iii) Mr. Deng Bo and Mr. Liao Qian were appointed on 17 January 2017 and 31 March 2017, respectively.
- (iv) Mr. Lam Kam Tong resigned as the executive director and was re-designated as a non-executive director of the Company on 20 July 2018.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were paid for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

The discretionary bonus is determined by the Board of Directors based on the Group's performance for each financial year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Five highest paid employees

The five individuals with the highest emoluments in the Group included 2 (2017: 3) directors for the year ended 31 December 2018. Details of their emoluments are set out above. The emoluments of the remaining 3 (2017: 2) of the five highest paid individuals is as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and allowances	9,721	5,726
Discretionary bonus	1,985	1,629
Retirement benefit scheme contributions	214	151
	11,920	7,506

Their emoluments were within the following band:

	2018	2017
	No. of employees	No. of employees
HKD4,000,001 to HKD4,500,000	3	2

During the years ended 31 December 2018 and 2017, no remuneration was paid by the Group to any of the directors, chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and chief executive waived any remuneration for both the years ended 31 December 2018 and 2017.

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13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year:		
2017 final dividend HK7.00 cents (2017: 2016 final dividend HK5.00 cents) per share	329,217	250,049

Subsequent to the end of the reporting period, a final dividend in respect of year ended 31 December 2018 of HK4.00 cents, equivalent to RMB3.4 cents (2017: final dividend in respect of year ended 31 December 2017 of HK7.00 cents, equivalent to RMB5.8 cents) per share amounting to approximately RMB195,940,000 has been proposed by the directors for approval by the shareholders in the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	728,339	1,154,316
Effect of dilutive potential ordinary shares:		
Share options – Colour Life	(93)	–
Earnings for the purpose of diluted earnings per share	728,246	1,154,316
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,762,746,463	5,761,971,836
Effect of dilutive potential ordinary shares:		
Share options	27,204,965	22,696,062
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,789,951,428	5,784,667,898

Those share options granted by Morning Star, a wholly owned subsidiary of the Company, have no impact on the computation of diluted earnings per share for both the years ended 31 December 2018 and 2017, where Morning Star's share options are anti-dilutive.

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15. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings RMB'000	Leasehold land and buildings RMB'000	Renovations and leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2017	1,021,740	465,168	176,726	286,639	294,139	284,277	2,528,689
Transfer upon completion	40,006	19,818	–	61,433	–	(121,257)	–
Additions	–	21,157	37,564	6,272	315,107	346,349	726,449
Acquisition of subsidiaries (note 45)	–	–	581	67,925	5,584	–	74,090
Disposal of subsidiaries (note 46 (a) and (c))	–	(49,606)	(9,057)	(26,005)	(13,151)	(28,440)	(126,259)
Disposals	–	(10,669)	(1,141)	(9,539)	(2,982)	–	(24,331)
At 31 December 2017	1,061,746	445,868	204,673	386,725	598,697	480,929	3,178,638
Transfer upon completion	–	39,609	–	44,980	–	(84,589)	–
Additions	–	20,603	46,541	85,090	70,140	131,973	354,347
Acquisition of subsidiaries (note 45)	–	100,020	–	2,590	1,430	193,760	297,800
Transfer to investment properties	–	(19,441)	–	–	–	–	(19,441)
Disposal of subsidiaries (note 46 (a) and (c))	(82,542)	(255,174)	–	(7,214)	(5,414)	(103,270)	(453,614)
Disposals	–	(50,121)	(5,174)	(10,737)	(2,742)	–	(68,774)
At 31 December 2018	979,204	281,364	246,040	501,434	662,111	618,803	3,288,956
DEPRECIATION							
At 1 January 2017	84,593	104,607	74,551	108,458	78,208	–	450,417
Provided for the year	34,876	53,629	38,606	32,906	16,889	–	176,906
Eliminated on disposal of subsidiaries (note 46 (a) and (c))	–	(32,905)	(1,041)	(8,082)	(2,870)	–	(44,898)
Eliminated on disposals	–	(3,098)	(99)	(9,500)	(2,174)	–	(14,871)
At 31 December 2017	119,469	122,233	112,017	123,782	90,053	–	567,554
Provided for the year	33,134	34,681	46,300	74,105	49,753	–	237,973
Transfer to investment properties	–	(1,031)	–	–	–	–	(1,031)
Eliminated on disposal of subsidiaries (note 46 (a) and (c))	(7,840)	(41,780)	–	(6,916)	(4,399)	–	(60,935)
Eliminated on disposals	–	(39,884)	(3,756)	(5,370)	(2,401)	–	(51,411)
At 31 December 2018	144,763	74,219	154,561	185,601	133,006	–	692,150
CARRYING AMOUNTS							
At 31 December 2018	834,441	207,145	91,479	315,833	529,105	618,803	2,596,806
At 31 December 2017	942,277	323,635	92,656	262,943	508,644	480,929	2,611,084

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

The following useful lives are used in the calculation of depreciation:

Hotel buildings	Over the shorter of the term of lease or 20 years
Leasehold land and buildings	Over the shorter of the term of lease or 50 years
Renovations and leasehold improvements	5 to 10 years
Furniture, fixtures and equipment	5 years
Transportation equipment	5 to 15 years

The leasehold land and buildings and hotel buildings are all situated on land in the PRC and the USA.

As at 31 December 2018, certain of the Group's leasehold land and buildings and hotel buildings with carrying amounts of RMB132,278,000 (2017: RMB295,167,000) were pledged to banks to secure the banking facilities granted to the Group.

As at 31 December 2018, transportation equipment amounting to RMB507,268,000 (2017: RMB490,021,000) are held under finance leases.

16. INVESTMENT PROPERTIES

	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
At 1 January 2017	5,316,563	1,665,276	6,981,839
Additions	920,707	821,084	1,741,791
Transfer from completed properties for sale	413,567	–	413,567
Transfer from prepaid lease payments	–	76,477	76,477
Transfer from premium on prepaid lease payments	–	84,355	84,355
Acquisition of subsidiaries (note 45(a))	–	800,992	800,992
Net change in fair value recognised in profit or loss	591,054	375,130	966,184
Transfer upon completion of construction work	2,333,489	(2,333,489)	–
Disposal of subsidiaries (note 46(a))	(3,593)	–	(3,593)
Disposals	(867,448)	–	(867,448)
At 31 December 2017	8,704,339	1,489,825	10,194,164
Additions	–	259,236	259,236
Transfer from completed properties for sale	333,862	–	333,862
Transfer from property, plant and equipment (note 15)	18,410	–	18,410
Transfer from prepaid lease payments	6,412	–	6,412
Acquisition of subsidiaries (note 45(a))	–	109,981	109,981
Net change in fair value recognised in profit or loss	5,273	131,529	136,802
Transfer upon completion of construction work	271,373	(271,373)	–
Disposals	(542,890)	–	(542,890)
At 31 December 2018	8,796,779	1,719,198	10,515,977
Unrealised gain on property revaluation included in profit or loss for the year ended 31 December 2018 (note)	5,273	131,529	136,802
Unrealised gain on property revaluation included in profit or loss for the year ended 31 December 2017 (note)	570,240	375,130	945,370

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16. INVESTMENT PROPERTIES (continued)

Note: Unrealised gain on property revaluation included change in fair value of investment properties and change in fair value of completed properties for sale upon transfer to investment properties which have been presented on the face of the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018, the fair value of the Group's completed investment properties of RMB8,796,779,000 (2017: RMB8,704,339,000) and investment properties under development of RMB1,719,198,000 (2017: RMB1,489,825,000) were arrived at on the basis of a valuation carried out by Jones Lang LaSalle Sallmanns Limited, an independent qualified professional valuers which are not connected with the Group, which has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

As at 31 December 2018, investment properties with fair value of RMB567,653,000 (2017: RMB551,978,000) represented completed car parks which can be legally transferred, leased and mortgaged but the title certificates cannot be currently applied according to the relevant laws and regulations in the PRC.

As at 31 December 2018, certain of the Group's investment properties with an aggregate fair value of RMB2,484,166,000 (2017: RMB2,150,253,000) were pledged to banks to secure the banking facilities granted to the Group.

The valuations of completed investment properties as at 31 December 2018 and 2017 are determined by income capitalisation method and direct comparison method. Income capitalisation method is arrived at by reference to net rental income allowing for reversionary income potential and market evidence of transaction prices for similar properties in the same locations and conditions, where appropriate. The valuations of investment properties under construction as at 31 December 2018 and 2017 are arrived at by residual method and direct comparison method, which is based on market observable transactions of similar properties and taken into account the construction costs that will be expended to complete the development. Direct comparison approach is arrived at by reference to comparable market transactions and suppose that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowance for variable factors. In estimating the fair value of the properties, highest and best use of the properties is their current use.

All of the Group's property interests held under operating leases to earn rentals are classified and accounted for as investment properties and are measured using the fair value model.

The following table gives information about how the fair values of these investment properties as at 31 December 2018 and 2017 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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16. INVESTMENT PROPERTIES (continued)

Investment properties held by the Group	Fair value as at 31 December 2018 RMB'000	Location	Fair value hierarchy	Valuation techniques and key inputs	Significant observable/unobservable inputs	Range	Sensitivity
Completed investment properties	8,322,056	Shenzhen, Tianjin, Chengdu, Nanjing, Dongguan, Guilin, Wuhan, Suzhou, Shanghai, Huizhou	Level 3	Income capitalisation method – income capitalisation of the net income and made provisions for reversionary income potential.	1. Term yield	3% – 6%	A slight increase in term yield would not result in significant decrease in fair value, and vice versa.
					2. Reversionary yield	2.3% – 6.5%	A slight increase in reversionary yield would not result in significant decrease in fair value, and vice versa.
					3. Vacancy ratio	0% – 20%	A slight increase in vacancy ratio would not result in significant decrease in fair value, and vice versa.
Completed investment properties	474,723	Shenzhen, Huizhou, Wuhan, Dongguan, Tianjin, Shanghai	Level 3	Direct comparison method – based on market observable transactions of similar properties and adjusted to reflect the conditions of the subject property.	1. Market unit sales price (RMB/sqm)	3,150 – 15,900	A significant increase/decrease in market unit sales price would result in significant increase/decrease in fair value.
					2. Adjustment made to account for differences in location	3% – 10%	A significant increase/decrease in adjustment would result in significant decrease/increase in fair value.
Investment properties under construction	1,149,698	Jiangsu, Hangzhou	Level 3	Residual method – based on gross development value and taken into account the construction costs to completion, developer's profit, marketing costs.	1. Gross development value (RMB'000) on completion basis	817,000 – 1,770,000	A significant increase/decrease in gross development value would result in significant increase/decrease in fair value.
					2. Developer's profit	12% – 14%	A significant increase in developer's profit would result in significant decrease in fair value, and vice versa.
					3. Marketing costs	3%	A slight increase in marketing costs would not result in significant decrease in fair value, and vice versa.
					4. Construction costs to completion (RMB'000)	52,000 – 938,000	A significant increase in construction costs to completion would result in significant decrease in fair value, and vice versa.
Investment properties under construction	569,500	Chengdu, Nanjing	Level 3	Direct comparison method – based on market observable transactions of similar lands and adjusted to reflect the conditions of the subject lands.	1. Market unit sales price (RMB/sqm)	2,300 – 2,700	A significant increase/decrease in market unit sales price would result in significant increase/decrease in fair value.
					2. Adjustment made to account for differences in location	3% – 10%	A significant increase/decrease in adjustment would result in significant decrease/increase in fair value.
							10,515,977

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16. INVESTMENT PROPERTIES (continued)

Investment properties held by the Group	Fair value as at 31 December 2017 RMB'000	Location	Fair value hierarchy	Valuation techniques and key inputs	Significant observable/unobservable inputs	Range	Sensitivity
Completed investment properties	7,989,358	Shenzhen, Tianjin, Chengdu, Nanjing, Dongguan, Guilin, Wuhan, Suzhou, Shanghai, Huizhou	Level 3	Income capitalisation method – income capitalisation of the net income and made provisions for reversionary income potential.	1. Term yield	3% – 6%	A slight increase in term yield would not result in significant decrease in fair value, and vice versa.
					2. Reversionary yield	2.3% – 6.5%	A slight increase in reversionary yield would not result in significant decrease in fair value, and vice versa.
					3. Vacancy ratio	0% – 20%	A slight increase in vacancy ratio would not result in significant decrease in fair value, and vice versa.
Completed investment properties	714,981	Shenzhen, Huizhou, Wuhan, Dongguan, Tianjin, Shanghai	Level 3	Direct comparison method – based on market observable transactions of similar properties and adjusted to reflect the conditions of the subject property.	1. Market unit sales price (RMB/sqm)	3,100 – 16,700	A significant increase/decrease in market unit sales price would result in significant increase/decrease in fair value.
					2. Adjustment made to account for differences in location	3% – 10%	A significant increase/decrease in adjustment would result in significant decrease/increase in fair value.
Investment properties under construction	721,324	Nanjing, Jiangsu	Level 3	Residual method – based on gross development value and taken into account the construction costs to completion, developer's profit, marketing costs.	1. Gross development value (RMB'000) on completion basis	80,400 – 839,000	A significant increase/decrease in gross development value would result in significant increase/decrease in fair value.
					2. Developer's profit	13% – 15%	A significant increase in developer's profit would result in significant decrease in fair value, and vice versa.
					3. Marketing costs	3%	A slight increase in marketing costs would not result in significant decrease in fair value, and vice versa.
					4. Construction costs to completion (RMB'000)	11,600 – 95,000	A significant increase in construction costs to completion would result in significant decrease in fair value, and vice versa.
Investment properties under construction	768,501	Chengdu	Level 3	Direct comparison method – based on market observable transactions of similar lands and adjusted to reflect the conditions of the subject lands.	1. Market unit sales price (RMB/sqm)	900 – 3,300	A significant increase/decrease in market unit sales price would result in significant increase/decrease in fair value.
					2. Adjustment made to account for differences in location	3% – 10%	A significant increase/decrease in adjustment would result in significant decrease/increase in fair value.
	10,194,164						

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16. INVESTMENT PROPERTIES (continued)

There were no transfers into or out of Level 3 during the year ended 31 December 2018.

17. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of investments, unlisted	1,306,450	1,167,204
Share of post-acquisition results, net of dividends received	40,136	7,704
	1,346,586	1,174,908

Details of the Group's principal associates at the end of the reporting period are as follow:

Name of entities	Place of incorporation/ establishment	Place of operation	Equity interest attributable to the Group		Proportion of voting power held by the Group		Principal activities
			2018	2017	2018	2017	
Wuhu Xinjia Investment Center (Limited Partnership) ("Wuhu Xinjia") 蕪湖信嘉投資中心 (有限合夥) (note a)	PRC	PRC	46%	46%	33%	33%	Investment management in the PRC
Suzhou Linjiayan Property Development Co., Ltd. ("Suzhou Linjiayan") 蘇州林甲岩房產發展 有限公司 (note b)	PRC	PRC	43%	43%	43%	43%	Property development in the PRC

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17. INTERESTS IN ASSOCIATES (continued)

Notes:

- (a) The Group is a limited partner of Wuhu Xinjia. Pursuant to the partnership agreement, the Group has the right to cast one out of three votes of Wuhu Xinjia at the investment committee's meeting, the governing body which directs the relevant activities that significantly affect the returns of Wuhu Xinjia. The approval of relevant activities require two thirds of the total votes. Therefore, Wuhu Xinjia is accounted for as an associate of the Group.
- (b) During the year ended 31 December 2017, the Group made additional capital contribution of RMB319,400,000 to Suzhou Linjiayan, which was accounted for as an AFS investment previously. Upon completion of the capital injection, the Group's shareholding in Suzhou Linjiayan increased from 5% to 43%. Pursuant to the amended shareholder's agreement, the Group has the right to cast 43% of the votes of Suzhou Linjiayan at the shareholder's meeting, the governing body which directs the relevant activities that significantly affect the returns of Suzhou Linjiayan. The approval of relevant activities require simple majority of shareholders. As the Group holds no more than 50% of the voting power in the shareholders' meeting, therefore, Suzhou Linjiayan is accounted for as an associate of the Group.
- (c) During the year ended 31 December 2018, the Group acquired equity interests in certain associates at a total consideration of RMB144,246,000, including of which deposits of RMB42,220,000 was paid in prior year. The associate was engaged in property operation services or act as investment holding in the PRC.
- (d) During the year ended 31 December 2018, the Group has disposed of its interests in an associate at a consideration of RMB5,000,000, with insignificant gain recognised in the consolidated statement of profit or loss and other comprehensive income.

Summarised financial information in respect of the Group's principal associates are set out below. The summarised financial information below represented amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

The associates are accounted for using equity method in these consolidated financial statements.

Wuhu Xinjia

	2018 RMB'000	2017 RMB'000
Current assets	1,459,470	1,050,732
Non-current assets	237,130	624,355
Current liabilities	–	(1,904)
Profit and other comprehensive income for the year	23,260	884

Reconciliation of the above summarised financial information to the carrying amount of the interest in Wuhu Xinjia recognised in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Net assets of Wuhu Xinjia	1,696,600	1,673,183
Less: Non-controlling interests of Wuhu Xinjia's subsidiary	(5,587)	(5,431)
Proportion of the Group's ownership interest in Wuhu Xinjia	1,691,013 46%	1,667,752 46%
Less: Unrealised gain on disposal of a previous subsidiary of the Group to Wuhu Xinjia	777,866 (109,320)	767,166 (109,320)
Carrying amount of the Group's interest	668,546	657,846

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17. INTERESTS IN ASSOCIATES (continued)

Suzhou Linjiayan

	2018 RMB'000	2017 RMB'000
Current assets	927,222	666,583
Non-current assets	787,008	583,389
Current liabilities	(867,224)	(395,734)
(Loss) profit and other comprehensive (expense) income for the year	(7,231)	8,334

Reconciliation of the above summarised financial information to the carrying amount of the interest in Suzhou Linjiayan recognised in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Net assets of Suzhou Linjiayan	847,006	854,238
Proportion of the Group's ownership interest	43%	43%
Carrying amount of the Group's interest	364,213	367,322

Aggregate information of associates that are not individually material:

	2018 RMB'000	2017 RMB'000
The Group's share of profit and other comprehensive income	27,289	4,852
Aggregate carrying amount of the Group's interests	313,827	149,740

18. INTERESTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Cost of investments, unlisted	1,431,647	1,051,203
Share of post-acquisition results, net of dividends received	(4,689)	8,854
	1,426,958	1,060,057

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18. INTERESTS IN JOINT VENTURES (continued)

Details of the Group's principal joint ventures at the end of the reporting period are as follow:

Name of entities	Place of incorporation/ establishment	Place of operation	Equity interest attributable to the Group		Proportion of voting power held by the Group		Principal activities
			2018	2017	2018	2017	
Beijing Yaxinke	PRC	PRC	35.69% (note 46(c))	N/A	35.69% (note 46(c))	N/A	Property development in the PRC
Fantasia Anchor Investment II LLC (San Jose) (note a)	USA	USA	99.9%	99.9%	50%	50%	Property development in the USA
Fantasia Anchor Investment III LLC (note a)	USA	USA	71.9%	71.9%	33.3%	33.3%	Property development in the USA
Chuangshi Jianian Fund ("Chuangshi Jianian") 創世嘉年基金 (note b)	PRC	PRC	–	38.8%	–	33.3%	Investment management in the PRC
Shenzhen Qianhai Jianian Dingsheng Investment Management Co., Ltd. ("Jianian Dingsheng") 深圳前海嘉年鼎盛投資管理有限公司 (note c)	PRC	PRC	(note c)	49%	(note c)	49%	Investment management in the PRC

Notes:

- (a) These companies are accounted for as joint ventures as at respective period end date as in accordance with the memorandum and articles of the companies, major financial and operating policies of these companies require the unanimous consent of all directors.
- (b) Chuangshi Jianian was established and acquired the 100% equity interest in Shenzhen Jiixin Consultancy Service Co., Ltd. (深圳市嘉信諮詢服務有限公司) ("Shenzhen Jiixin") in 2016. Upon the acquisition of Shenzhen Jiixin, as described in note 45(b), the Group and the other investors of Chuangshi Jianian agreed to withdraw the investment and deregister Chuangshi Jianian. During the year ended 31 December 2018, the deregistration of Chuangshi Jianian was completed and RMB410,070,000 was returned to the Group.

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18. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

- (c) Jianian Dingsheng was established and held 100% equity interest in Sichuan Ximei Investment Co., Ltd. (四川西美投资有限公司) (“Sichuan Ximei”), which holds two parcels of land located in Sichuan and engage in property development. The approval of relevant activities require two-third of the voting power in the shareholders’ meeting, therefore, Jianian Dingsheng and Sichuan Ximei is jointly controlled by the Group and the other 49% shareholder and accounted for as joint ventures.

During the year ended 31 December 2018, the Group revised the terms of the cooperation with the other shareholder and mad additional capital injection to Jianian Dingsheng amounting to RMB15,893,000. Pursuant to the revised memorandum and articles, the approval of relevant activities require simple majority of the voting power in the shareholders’ meeting. Upon completion of the equity transaction and revision of terms of cooperation, the Group hold 51% equity interests and voting rights in Jianian Dingsheng. Jianian Dingsheng and Sichuan Ximei are reclassified from joint venture to subsidiary of the Company. Details are set out in note 45(a).

- (d) During the year ended 31 December 2018, the Group made total capital contributions of RMB73,762,000 to establish certain joint ventures with a number of joint venture partners. The joint ventures mainly act as investment holding companies.

Summarised financial information in respect of the Group’s principal joint venture are set out below. The summarised financial information below represented amounts shown in the joint venture’s financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using equity method in these consolidated financial statements.

Beijing Yaxinke

	2018 RMB’000	2017 RMB’000
Current assets	3,488,611	N/A
Current liabilities	(1,466,611)	N/A

Reconciliation of the above summarised financial information to the carrying amount of the interest in Beijing Yaxinke recognised in the consolidated financial statements:

	2018 RMB’000	2017 RMB’000
Net assets of Beijing Yaxinke	2,022,000	N/A
Proportion of the Group’s ownership interest	35.69%	N/A
Carrying amount of the Group’s interest	721,652	N/A

Aggregate information of joint ventures that are not individually material:

	2018 RMB’000	2017 RMB’000
The Group’s share of (loss) profit and other comprehensive (expense) income	(11,140)	167,670
Aggregate carrying amount of the Group’s interests	705,306	1,060,057

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19. EQUITY INSTRUMENTS DESIGNATED AT FVTOCI/AFS INVESTMENTS

	NOTES	2018 RMB'000	2017 RMB'000
Unlisted equity investments			
– Property operation services	(a)	45,167	13,457
– Jiaxing Fangyan	(b)	–	100,000
– Others		6,384	4,206
		51,551	117,663

Notes:

- (a) These unlisted equity securities represented the investments in certain private entities, which represented the equity interests ranging from 1% to 20% in the investees as at 31 December 2018 and 2017. The investees are mainly engaged in property operation services. Details of the fair value measurement of the investments are set out in note 49(c).
- (b) In 2017, the Group and an independent investor made capital contributions of RMB100,000,000 and RMB1,000,000,000, respectively to Jiaxing Fangyan Investment Partnership (Limited Partnership) (嘉興方宴投資合夥企業(有限合夥)) (“Jiaxing Fangyan”) which then acquired from an independent third party a defaulted loan receivable from a property developer in the PRC (“Debt Instrument”), at a cash consideration of RMB1,100,000,000. The Group’s investment in Jiaxing Fangyan was accounted for as AFS investment. Pursuant to the supplemental partnership agreement entered into between the Group and the independent investor in August 2018, the return on capital injected by the other partner amounting to RMB1,000,000,000 were fixed to be 14% per annum and the independent investor would not vote against the Group in the investment committee of Jiaxing Fangyan, unless Jiaxing Fangyan defaults in settlement of the fixed return and capital to the independent investor in accordance with the repayment schedule and the independent investor is no longer entitled to the beneficial interest in Jiaxing Fangyan other than the 14% fixed return. The capital by the other partner is due for repayment by the Group in 2020 while the fixed return of 14% is payable annually and to be ended at the same time when the capital is being repaid. Therefore, the Group has obtained 100% beneficial interests in Jiaxing Fangyan and Jiaxing Fangyan was accounted for as a subsidiary of the Company. Details are set out in note 45(a).

The directors of the Company have elected to designate the unlisted equity investments as AFS investments at 31 December 2017 and classified these investments as equity investments measured at FVTOCI upon the adoption of HKFRS 9 as the investments are not held for trading and not expected to be sold in the foreseeable future.

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20. FINANCIAL ASSETS AT FVTPL

	NOTES	2018 RMB'000	2017 RMB'000
Money market fund investments	(a)	89,196	234,460
Debt Instrument	(b)	2,038,000	–
		2,127,196	234,460

Notes:

- (a) The money market fund investments were issued by a reputable securities corporation. The return and principal of money market fund investments were not guaranteed by the securities corporation. The investments as above have been measured at FVTPL at initial recognition as the investments are managed and the performance is evaluated on fair value basis.
- (b) As detailed in note 19, Jiaying Fangyan which holds the Debt Instrument becomes a wholly-owned subsidiary of the Company in 2018. The Debt Instrument was defaulted by a property developer in 2015 and it is pledged with certain completed properties located in Beijing, the PRC. The Debt Instrument can be recovered through the realisation of the properties under pledge in judicial auction, which is expected to be completed in 2019. According to the valuation report prepared by an independent professional valuer, the fair value of the Debt Instrument is RMB2,038,000,000 as at 31 December 2018.

The fair value of the money market fund investments at 31 December 2018 and 2017 are determined by market approach, which arrived at by reference to the performance of the underlying investments mainly comprising debt investments in PRC including government debentures, treasury notes, corporate bonds and short-term fixed deposits.

As at 31 December 2018, the principal of the money market fund investments are RMB89,196,000 (2017: RMB234,460,000). In the opinion of directors, the fair value of investment at 31 December 2018 approximated to their principal amount and the fair value gain of the money market fund investments amounting to RMB1,273,000 (2017: RMB4,457,000) was recognised in other gain and losses during the year ended 31 December 2018.

The fair value of the Debt Instrument at 31 December 2018 is determined by management, with reference to a valuation report prepared by professional valuer, to be RMB2,038,000,000 and the fair value gain of the Debt Instrument amounting to RMB938,000,000 was recognised in other gain and losses during the year ended 31 December 2018. The fair value of the Debt Instrument is determined based on the probability weighted expected return model, which involved estimation of cash flows that can be recovered from the Debt Instrument under different scenarios of the outcomes of the judicial auction. The valuations of the Debt Instrument are dependent on certain unobservable inputs, including the expected value, discount rate and probability of outcome of the judicial auction. Details of the fair value measurement of the investments are set out in note 49(c).

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21. GOODWILL

	RMB'000
COST	
At 1 January 2017	944,266
Arising on acquisition of businesses (note 45(b))	1,478,064
Disposal of subsidiaries (note 46(a) and (c))	(40,998)
At 31 December 2017	2,381,332
Arising on acquisition of businesses (note 45(b))	46,796
Disposal of subsidiaries (note 46(a))	(6,831)
At 31 December 2018	2,421,297
IMPAIRMENT	
At 1 January 2017	31,516
Impairment loss recognised for the year	50,058
At 31 December 2017 and 2018	81,574
CARRYING VALUES	
At 31 December 2018	2,339,723
At 31 December 2017	2,299,758

For the purpose of impairment testing, goodwill above has been allocated to two groups of cash-generating units, comprising a group of subsidiaries in property operation services collectively as the property operation cash-generating units and a group subsidiaries in travel agency services collectively as the travel agency cash-generating units. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2018 and 2017 allocated to these cash-generating units are as follow:

	2018	2017
	RMB'000	RMB'000
Property Operation CGU	2,260,534	2,220,569
Travel Agency CGU	79,189	79,189
	2,339,723	2,299,758

During the year ended 31 December 2017, in the opinion of the directors of the Company, the performance of Travel Agency CGU was declined due to the vigorous market competition. The carrying amount of the assets (including goodwill allocated to Travel Agency CGU) of the Travel Agency CGU is determined to be higher than the recoverable amount at 31 December 2017. Therefore, the Group recognised an impairment loss of RMB50,058,000 in relation to goodwill allocated to Travel Agency CGU.

The recoverable amounts of Property Operation CGU and Travel Agency CGU have been determined based on a value in use calculation. The calculation uses cash flow projection based on financial budgets approved by the management covering a five-year period and at discount rates which ranges from 14% – 20% per annum as at 31 December 2017 and 2018. The cash flows beyond the five-year period are extrapolated using zero growth rate.

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21. GOODWILL (continued)

Cash flow projections during the budget period for Property Operation CGU and Travel Agency CGU are based on the management's key estimation of cash inflows/outflows including revenue, gross profit, operating expenses and working capital requirements. The assumptions and estimation are based on the past performance and management's expectation of market development. The management of the Group believes that any reasonably possible change in the key estimation of the value in use calculation would not cause the carrying amount to exceed its recoverable amount.

22. INTANGIBLE ASSETS

	Property management contracts and customers' relationship RMB'000	Trademark RMB'000	Total RMB'000
COST			
At 1 January 2017	250,826	52,441	303,267
Arising on acquisition of subsidiaries (note 45(b))	1,092,852	–	1,092,852
At 31 December 2017	1,343,678	52,441	1,396,119
Arising on acquisition of subsidiaries (note 45(b))	8,920	–	8,920
At 31 December 2018	1,352,598	52,441	1,405,039
AMORTISATION			
At 1 January 2017	40,522	3,497	44,019
Provided for the year	28,702	3,497	32,199
At 31 December 2017	69,224	6,994	76,218
Provided for the year	136,428	3,497	139,925
At 31 December 2018	205,652	10,491	216,143
CARRYING AMOUNT			
At 31 December 2018	1,146,946	41,950	1,188,896
At 31 December 2017	1,274,454	45,447	1,319,901

The property management contracts, customers' relationship and trade mark were acquired from third parties through the acquisition of subsidiaries.

The intangible assets have finite useful lives and are amortised on a straight line basis over 60 months to 120 months.

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23. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Non-current assets	206,743	754,720
Current assets	6,750	18,228
	213,493	772,948

During the year ended 31 December 2018, prepaid lease payments of RMB516,859,000 (2017: RMB858,993,000) was transferred to properties under development for sale; prepaid lease payments of RMB6,412,000 (2017: RMB76,477,000) was transferred to investment properties under construction upon commencement of the related construction work in certain property development projects.

During the year ended 31 December 2018, prepaid lease payments of RMB19,234,000 (2017: nil) were acquired through acquisition of subsidiaries and prepaid lease payments of RMB41,044,000 (2017: nil) were disposed through disposal of subsidiaries, details are set out in note 45(a) and 46(c), respectively.

24. PREMIUM ON PREPAID LEASE PAYMENTS

Premium on prepaid lease payments of the Group represent the excess of the fair value over the carrying amount of the prepaid lease payments and amounting to RMB78,966,000 (2017: RMB1,288,225,000) in respect of leasehold lands in the PRC acquired through acquisition of subsidiaries during the year and are amortised over the period of the remaining lease term on a straight-line basis.

	RMB'000
COST	
At 1 January 2017	1,644,203
Transfer to properties under development for sale	(231,574)
Transfer to investment properties under construction (note 16)	(86,951)
At 31 December 2017	1,325,678
Disposal of subsidiaries (note 46(c))	(1,231,740)
At 31 December 2018	93,938
AMORTISATION	
At 1 January 2017	22,973
Amortised for the year	23,990
Eliminated on transfer to properties under development for sale	(6,914)
Eliminated on transfer to investment properties under construction (note 16)	(2,596)
At 31 December 2017	37,453
Amortised for the year	13,671
Eliminated on disposal of subsidiaries (note 46(c))	(36,152)
At 31 December 2018	14,972
CARRYING AMOUNTS	
At 31 December 2018	78,966
At 31 December 2017	1,288,225

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24. PREMIUM ON PREPAID LEASE PAYMENTS (continued)

During the year ended 31 December 2017, premium on prepaid lease payments of RMB224,660,000 was transferred to properties under development for sale and premium on prepaid lease payments of RMB84,355,000 was transferred to investment properties under construction upon commencement of the related construction work in certain property development projects.

Analysed for reporting purposes as:

	2018 RMB'000	2017 RMB'000
Non-current assets	76,418	1,268,992
Current assets	2,548	19,233
	78,966	1,288,225

25. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS OF THE SUBSIDIARIES OF THE COMPANY, JOINT VENTURES AND ASSOCIATES

The amounts due from non-controlling shareholders of the subsidiaries of the Company, joint ventures and associates are non-trade in nature, unsecured, interest-free and repayable on demand.

The subsidiaries, joint ventures and associates are mainly engaged in property development, property management and property leasing business, the Group determined the current or non-current portion based on the expected date of recovery of the advances, which is by reference to the status of the property projects and the financial position of the subsidiaries, joint ventures and associates.

26. DEPOSITS PAID FOR POTENTIAL ACQUISITION OF SUBSIDIARIES

As at 31 December 2018, the Group had made deposits of RMB124,593,000 (2017: RMB746,813,000) in relation to the acquisition of a number of companies which are principally engaged in property development in the PRC from independent third parties.

As at 31 December 2018, the Group had made deposits of RMB69,834,000 (2017: RMB52,793,000) in relation to the acquisition of a number of companies which are principally engaged in property operation in the PRC from independent third parties.

Pursuant to the sale and purchase agreements, in case the aforesaid acquisition is not completed, the deposit would be fully refunded to the Group by the vendors.

At the date these consolidated financial statements are authorised for issuance, the acquisition of these subsidiaries have not been completed.

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27. DEPOSIT PAID FOR ACQUISITION OF A PROPERTY PROJECT

As at 31 December 2018, the Group had made deposit of RMB202,961,000 (2017: RMB159,214,000) in relation to the acquisition of a property project from an independent property developer.

The aforesaid deposit related to acquisition of a property for the operation of elderly care business and is therefore classified as non-current assets. At the date these consolidated financial statements are authorised for issuance, the acquisition of this project has not been completed.

28. DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2018, the Group had made deposits of RMB228,703,000 (2017: RMB118,103,000) in relation to acquisition of land use rights from independent third parties. At the date these consolidated financial statements are authorised for issuance, the acquisition of land use rights have not been completed.

29. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018	2017
	RMB'000	RMB'000
Deferred tax assets	(565,707)	(461,990)
Deferred tax liabilities	1,734,943	1,754,528
	1,169,236	1,292,538

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29. DEFERRED TAXATION (continued)

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Fair value change of investment properties and financial assets at FVTPL RMB'000	Revaluation of properties and other assets RMB'000	Temporary differences on deductible expenses RMB'000 (note a)	Tax losses RMB'000	Intangible assets RMB'000	Others RMB'000 (note b)	Total RMB'000
At 1 January 2017	1,112,839	262,853	(57,484)	(149,639)	60,354	(458,871)	770,052
Charge (credit) to profit and loss	291,610	(6,257)	(10,342)	(1,899)	(8,050)	(16,399)	248,663
Credit to other comprehensive income	-	-	-	-	-	(2,009)	(2,009)
Acquisition of subsidiaries (note 45(b))	-	-	(1,893)	-	273,056	-	271,163
Disposal of subsidiaries (note 46(a) and (c))	(546)	-	-	-	-	5,215	4,669
At 31 December 2017	1,403,903	256,596	(69,719)	(151,538)	325,360	(472,064)	1,292,538
Effect arising from initial application of HKFRS 9 and 15	-	-	24,120	-	-	(23,208)	912
At 1 January 2018	1,403,903	256,596	(45,599)	(151,538)	325,360	(495,272)	1,293,450
Charge (credit) to profit and loss	280,997	2,781	32,325	(1,013)	(34,981)	(107,596)	172,513
Credit to other comprehensive income	-	-	-	-	-	(60)	(60)
Acquisition of subsidiaries (note 45(b))	-	-	-	-	2,230	-	2,230
Disposal of subsidiaries (note 46(c))	-	(298,897)	-	-	-	-	(298,897)
At 31 December 2018	1,684,900	(39,520)	(13,274)	(152,551)	292,609	(602,928)	1,169,236

Notes:

- (a) Temporary differences on deductible expenses mainly represent advertising expenses, ECL allowance and incremental sales commission, which would be deductible in the future.
- (b) Others mainly represent the temporary differences arising from LAT provision and financing component in respect of contract liabilities.

As at 31 December 2018, the Group had unutilised tax losses of RMB2,999,780,000 (2017: RMB3,208,092,000). A deferred tax asset has been recognised in respect of RMB610,204,000 (2017: RMB606,152,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB2,389,576,000 (2017: RMB2,601,940,000) due to the unpredictability of future profits streams.

As at 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised, was RMB15,883,154,000 (2017: RMB13,076,314,000). No deferred tax liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

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30. PROPERTIES FOR SALE

	2018 RMB'000	2017 RMB'000
Completed properties for sale	8,451,136	4,709,787
Properties under development for sale	26,431,268	19,068,179
	34,882,404	23,777,966

As at 31 December 2018, certain of the Group's properties for sale with a carrying amount of RMB6,374,242,000 (2017: RMB2,139,194,000) were pledged to secure certain banking facilities granted to the Group.

During the year ended 31 December 2018, completed properties for sale with an aggregate carrying amount of RMB251,453,000 (2017: RMB294,978,000) were transferred to investment properties upon change in use as evidenced by the commencement of operating leases. The excess of the fair value of these properties at the date of transfer over their carrying amounts, amounting to RMB82,409,000 (2017: RMB118,589,000) were recognised in the consolidated statement of profit or loss and other comprehensive income for the year.

Included in the amount are properties under development for sale of RMB17,061,599,000 (2017: RMB11,334,150,000) in relation to property development projects that are expected to complete after one year from the end of the reporting period.

31. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000 (note)
Unbilled revenue of		
– construction of properties	380,447	69,834
– engineering services	81,698	64,562
Retention receivables	243	679
	462,388	135,075
Less: allowance for impairment losses	(12,798)	(12,431)
	449,590	122,644

Note: The amounts in this column are after the adjustments from the application of HKFRS 9 and 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional upon the satisfaction by the customers on the construction work completed and/or engineering services rendered by the Group. The amounts are transferred out of contract assets to trade receivables when the rights become unconditional.

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31. CONTRACT ASSETS (continued)

Movements of allowance for impairment losses

	2018 RMB'000
Balance at 1 January upon application of HKFRS 9 and 15	12,431
Impairment loss recognised	367
Balance at 31 December	12,798

Details of the impairment assessment are set out in note 49(b).

32. CONTRACT COSTS

	2018 RMB'000
Incremental costs to obtain contracts	201,414

Contract costs capitalised as at 31 December 2018 relate to the incremental sales commissions paid to intermediaries/employees whose selling activities resulted in customers entering into sale and purchase agreements for the Group's properties which are still under construction at the reporting date. Contract costs are recognised as part of cost of sales in the consolidated statement of profit or loss in the period in which revenue from the related property sales is recognised. The amount of capitalised costs recognised in profit or loss during the year was RMB90,414,000. There was no impairment in relation to the opening balance and the year end balance of capitalised costs.

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33. TRADE AND OTHER RECEIVABLES

	NOTES	2018 RMB'000	2017 RMB'000
Trade receivables			
– goods and services	(a)/(b)	1,915,161	2,026,537
– leasing	(b)	41,966	33,884
– retention receivables and unbilled revenue		–	21,548
Other receivables	(c)	889,364	495,612
Loan receivables	(d)	247,211	88,302
Prepayments and other deposits		1,446,854	271,564
Prepayments to suppliers		229,926	228,826
Prepayments for construction work		641,626	596,232
Consideration receivables on disposal of partial interests in subsidiaries resulting in loss of control		32,000	9,000
Amount due from Pixian Government	(e)	122,830	122,830
Other tax prepayments	(f)	529,788	402,693
		6,096,726	4,297,028
Less: Amounts shown under non-current assets		(158,698)	(167,624)
Amounts shown under current assets		5,938,028	4,129,404

Notes:

(a) As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB1,915,161,000 and RMB2,026,537,000, respectively.

As at 31 December 2017, included in trade receivables are retention receivables of RMB679,000 and unbilled revenue of RMB20,869,000. Upon application of HKFRS 15, the retention receivables and unbilled revenue were reclassified to contract assets.

Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the date of agreement.

Property operation service fee is received in accordance with the terms of the relevant service agreements, normally within 30 days to 1 year after the issuance of demand note. Each customer from property operation services has a designated credit limit.

Hotel operation and travel agency service income are mainly in form of settlement in cash and credit cards.

Rental income from investment properties is received in accordance with the terms of the relevant lease agreements, normally within 30 days from the issuance of invoices.

Consideration in respect of fuel pumps sold is paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the date of delivery of fuel pumps. Each customer from sales of fuel pumps has a designated credit limit.

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33. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

- (b) The following is an aged analysis of trade receivables of the Group net of allowance for impairment losses presented based on the date of delivery of the properties to the customers for property sale or the invoice date or date of demand note for rendering of services at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
0 to 30 days	996,756	989,820
31 to 90 days	506,815	639,412
91 to 180 days	280,436	212,806
181 to 365 days	84,682	141,949
Over 1 year	88,438	97,982
	1,957,127	2,081,969

As at 31 December 2018, trade receivables mainly represented receivables amounting to RMB880,046,000 (2017: RMB1,007,710,000) from sales of properties, RMB801,033,000 (2017: RMB746,823,000) from property operation services, RMB41,966,000 (2017: RMB33,884,000) from leasing and RMB234,082,000 (2017: RMB272,004,000) from other segments.

As at 31 December 2018, the trade receivables included the receivables from the property sales of RMB563,972,000 (2017: RMB682,683,000) whereby the banks have agreed to provide mortgage facilities to the property purchasers and the banks are in the process of releasing the funds to the Group.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB733,584,000 which are past due as at the reporting date. Out of the past due balances, RMB453,556,000 has been past due 90 days or more and is not considered as in default, as the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

As at 31 December 2017, included in the Group's trade receivable balance were debtors with aggregate carrying amount of RMB607,766,000 which were past due for which the Group had not provided impairment loss as there had not been a significant change in credit quality and amounts were still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Aging of past due but not impaired

	2018 RMB'000	2017 RMB'000
0 to 90 days	280,028	155,029
91 to 180 days	280,436	212,806
181 to 365 days	84,682	141,949
Over 1 year	88,438	97,982
	733,584	607,766

Movement in the allowance for impairment losses

	RMB'000
Balance at 1 January 2017	77,664
Amounts written off	(2,223)
Impairment losses, net of reversal	30,049
Balance at 31 December 2017	105,490

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33. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) (continued)

Movement in the allowance for impairment losses

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit impaired) RMB'000	Total RMB'000
Balance at 31 December 2017 under HKAS 39	–	105,490	105,490
Reclassification	–	(9,448)	(9,448)
Remeasurement	2,347	2,263	4,610
Balance at 1 January 2018 under HKFRS 9	2,347	98,305	100,652
Impairment loss recognised	13,514	27,602	41,116
Transfer to credit-impaired	(7,319)	7,319	–
Amounts written off	–	(78,893)	(78,893)
Balance at 31 December 2018	8,542	54,333	62,875

(c) The balance mainly includes the payment on behalf of residents for the utilities and sundry charges of property operation services segment.

Movement in the allowance for impairment losses

	RMB'000
Balance at 1 January 2017	54,708
Amounts written off	(3,209)
Impairment losses, net of reversal	31,963
Balance at 31 December 2017	83,462

Movement in the allowance for impairment losses

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit impaired) RMB'000	Total RMB'000
Balance at 31 December 2017 under HKAS 39	–	83,462	83,462
Remeasurement	5,878	1,049	6,927
Balance at 1 January 2018 under HKFRS 9	5,878	84,511	90,389
Impairment losses, net of reversal	5,027	35,914	40,941
Transfer to credit-impaired	(599)	599	–
Amounts written off	–	(8,419)	(8,419)
Balance at 31 December 2018	10,306	112,605	122,911

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33. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(d) The loan receivables are as follows:

	NOTES	2018 RMB'000	2017 RMB'000
Fixed-rate loans provided to			
– online platform and community-related service companies	(i)	221,944	84,344
– property management companies	(ii)	25,267	–
– others		–	3,958
		247,211	88,302

(i) As at 31 December 2018, the Group has entered into loan agreements with certain independent third parties, which are engaged in provision of online platform and community-related services, for providing loans of RMB221,944,000 (2017: RMB84,344,000). The loans carry interests ranging from 6.0% to 15.0% per annum and will mature from March 2019 to January 2020. Included in the loan receivables, amounts of RMB32,500,000 (2017: RMB32,500,000) are pledged by equity interests in the borrowers and amounts of RMB24,000,000 (2017: RMB30,000,000) are pledged by the properties and land use rights held by the independent third parties. At 31 December 2018, the amounts of RMB194,431,000 (2017: RMB39,550,000) are due in one year and are classified as current assets and the amounts of RMB27,513,000 (2017: RMB44,794,000) are due after one year and are classified as non-current assets.

(ii) During the year ended 31 December 2018, the Group has entered into loan agreements with certain independent third parties, which are engaged in provision of property management services, for providing loans of RMB25,267,000 which are unsecured and unguaranteed. The loans carry interests at 15.0% per annum and will mature from September 2019 to June 2025. At 31 December 2018, the amounts of RMB16,912,000 are due in one year and are classified as current assets and the amounts of RMB8,355,000 are due after one year and are classified as non-current assets.

(e) The balance represented the amount due from the Pixian Government in relation to the land development project located in Chengdu, Sichuan Province. Pursuant to the agreement between the Group and Pixian Government, the Group is responsible for provision of funds to Pixian Government and management of the Land Development Project to Pixian Government while the Pixian Government is required to repay finance cost at benchmark lending rate of People's Bank of China, investment income at 12% per annum and project management fee at 3% per annum.

As at 31 December 2018, the outstanding principal amounting to RMB122,830,000 (2017: RMB122,830,000) is required to be settled upon disposal of land by Pixian Government which is expected to be over one year from the end of the reporting period and is classified under non-current assets.

(f) As at 31 December 2018, the balance mainly represented business tax and value-added tax amounting to RMB502,207,000 (2017: RMB378,921,000) in accordance with the relevant PRC tax rules in respect of its pre-sale of property development projects which has been prepaid and included in other tax prepayments.

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34. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	2017 RMB'000
Contracts in progress at the end of the reporting period	
Contract costs incurred plus recognised profits less recognised losses	258,074
Less: Progress billing	(167,773)
	90,301
Represented by:	
Amounts due from contract customers within one year	104,079
Amounts due to contract customers within one year	(13,778)
	90,301

As at 1 January 2018, amounts due from/to customers for contract works in relation to installation contracts, which were previously accounted under HKAS 11, were reclassified to contract assets and contract liabilities, respectively, upon adoption of HKFRS 15.

35. RESTRICTED/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The restricted/pledged bank deposits amounting to RMB1,192,375,000 (2017: RMB1,256,351,000) will be released upon the buyers obtaining the individual property ownership certificate, while a total amount of RMB167,036,000 (2017: RMB473,025,000) are proceeded from presale of properties with the restriction of use for settlement of construction costs for relevant property projects. Term deposits amounting to RMB430,000,000 (2017: RMB377,176,000) and RMB558,457,000 (2017: nil) were pledged to banks to secure current and non-current banking facilities granted to the Group, respectively.

The Group's restricted/pledged bank deposits and bank balances carry variable interest rates ranging from 0.04% to 4.71% (2017: 0.27% to 3.70%) per annum and from 0.02% to 2.90% (2017: 0.01% to 2.75%) per annum, respectively.

As at 31 December 2018 and 2017, bank balances of the relevant group entities denominated in foreign currencies are as below:

	2018 RMB'000	2017 RMB'000
Hong Kong Dollars	1,170,454	22,387
United States Dollars	660,827	3,107,330
Singapore Dollars	16,604	131,423
Japanese Yen	23,391	33,170

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36. TRADE AND OTHER PAYABLES

	NOTES	2018 RMB'000	2017 RMB'000
Trade payables		5,612,333	3,857,418
Deposit received	(a)	620,582	567,644
Other payables	(b)	872,599	835,599
Advances from customers for property operation services	(c)	–	497,536
Other tax payables		1,492,445	471,689
Accrued staff costs		848,205	625,366
Consideration payables for acquisition of subsidiaries (note 45)		869,397	2,352,484
Accruals		78,022	74,732
		10,393,583	9,282,468

Trade payables principally comprise amounts outstanding for purchase of materials and subcontracting fee for the construction of properties for sale. The average credit period for purchase of construction materials and settlement of subcontracting fee ranged from two months to one year.

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
0 to 60 days	2,801,902	1,994,373
61 to 180 days	1,541,021	905,494
181 to 365 days	784,916	642,043
1 – 2 years	383,922	232,191
2 – 3 years	82,438	74,942
Over 3 years	18,134	8,375
	5,612,333	3,857,418

Notes:

- (a) The balance of deposits received amounting to RMB620,582,000 (2017: RMB567,644,000) mainly represents the earnest money received from potential property buyers.
- (b) The balance of other payables mainly represents receipts on behalf of residents amounting to RMB462,038,000 (2017: RMB408,719,000).
- (c) The Group has initially applied HKFRS 15 at 1 January 2018, advances from customers of RMB497,536,000 previously included in trade and other payables were reclassified to contract liabilities.

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37. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000 (note)
Sales of completed properties	12,723,043	5,605,814
Provision of property operation services	316,028	511,314
	13,039,071	6,117,128

Note: The amounts in this column were after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Sales of developed properties RMB'000	Property operation services RMB'000	Total RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	2,937,329	498,273	3,435,602

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sales of completed properties

The Group receives 30% to 100% of the contract value as deposits from customers when they sign the sale and purchase agreement. However, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing. The advance payment schemes result in contract liabilities being recognised throughout the property construction period until the customer obtains control of the completed property.

In addition, the Group considers the advance payment schemes contain significant financing component and accordingly the amount of consideration is adjusted for the effects of the time value of money taking into consideration the credit characteristics of the relevant group entities. As this accrual increases the amount of the contract liability during the period of construction, it increases the amount of revenue recognised when control of the completed property is transferred to the customer.

Provision of property operation services

When the Group receives the monthly property management service fee from customers at the beginning of the month, it will give rise to contract liabilities, until the revenue is recognised on the relevant contract upon provision of property management services, which are expected to be satisfied within one year from the date of advance payment made by customers.

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38. AMOUNTS DUE TO JOINT VENTURES, ASSOCIATES AND NON-CONTROLLING SHAREHOLDERS OF THE SUBSIDIARIES OF THE COMPANY

The amounts due to joint ventures, associates and non-controlling shareholders of the subsidiaries of the Company are non-trade in nature, unsecured, interest-free and repayable on demand.

39. BORROWINGS

	NOTES	2018 RMB'000	2017 RMB'000
Bank loans		10,472,188	4,936,910
Other loans	(a)	8,683,366	4,926,735
		19,155,554	9,863,645
Secured	(b)	16,161,519	6,215,822
Unsecured		2,994,035	3,647,823
		19,155,554	9,863,645
Carrying amount repayable:			
Within one year		7,959,810	3,022,026
More than one year, but not exceeding two years		3,528,383	3,951,279
More than two years, but not exceeding five years		5,777,361	2,766,372
More than five years		1,890,000	123,968
Total borrowings		19,155,554	9,863,645
Less: Amounts due within one year shown under current liabilities		(7,959,810)	(3,022,026)
Amounts due after one year shown under non-current liabilities		11,195,744	6,841,619

Notes:

- (a) Other loans amounting to RMB5,935,163,000 (2017: RMB2,829,100,000) represented loans provided by certain trust companies, some of which are secured by the equity interest of certain subsidiaries of the Company and certain properties and carried interest rate of 5.23% to 13.8% (2017: 8.4% to 9.2%) per annum. The maturity of loan balances as at 31 December 2018 is ranging from 2019 to 2020.

As at 31 December 2018, other loan amounting to RMB1,000,000,000 (2017: RMB1,000,000,000) represented loan provided by a former joint venture partner of Shenzhen Xingfu Wanxiang Investment partnership (Limited Partnership) (深圳市幸福萬象投資合夥企業(有限合夥)) ("Shenzhen Wanxiang") and carried interest of 8.63% per annum. Details are set out in note 45(b).

As at 31 December 2018, other loan amounting to RMB1,000,000,000 (2017: nil) represented loan provided by a former joint venture partner of Jiaying Fangyan and carried interest of 14% per annum. Details are set out in note 45(a).

The remaining balance of other loans amounting to RMB748,203,000 (2017: RMB1,097,635,000) carried interest rate of 7.0% to 13.2% (2017: 8.9%) per annum. The loan balances as at 31 December 2018 are due in 2021.

- (b) Certain bank and other loans were secured by properties for sale, investment properties, prepaid lease payments, pledged bank deposits, property, plant and equipment. Details are set out in note 57.

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39. BORROWINGS (continued)

As at 31 December 2018, certain directors of the Company provided joint guarantees to the banks and trust companies for the Group's bank and other borrowings amounting to RMB846,000,000 (2017: RMB795,969,000) in aggregate.

The amounts due above are based on scheduled repayment dates set out in the loan agreements. As at 31 December 2018, all borrowings are denominated in RMB except that secured borrowings of RMB94,139,000 and unsecured borrowings of RMB644,523,000 are denominated in USD. As at 31 December 2017, all borrowings were denominated in RMB except that secured borrowings of RMB93,780,000 and RMB21,633,000 were denominated in USD and HKD, respectively, and unsecured borrowings amounting to RMB101,592,000 were denominated in SGD.

The exposure of the Group's borrowings is as following:

	2018	2017
	RMB'000	RMB'000
Fixed-rate borrowings	9,662,982	6,235,899
Variable-rate borrowings	9,492,572	3,627,746
	19,155,554	9,863,645

The ranges of effective interest rates on the Group's borrowings are as follows:

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	2.38% to 14.00% per annum	1.37% to 14.00% per annum
Variable-rate borrowings	4.75% to 13.84% per annum	3.45% to 10.05% per annum

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40. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its transportation equipment under finance leases. The lease term is ranging from 2 years to 6 years (2017: from 3 years to 7 years) for the transportation equipment. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.2% to 5.8% per annum for the transportation equipment.

	Minimum lease payments		Present value of minimum lease payments	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Amounts payable under finance leases				
Within one year	82,297	64,714	69,164	51,693
More than one year but not more than two years	82,269	62,316	72,908	51,593
More than two years but not more than five years	124,990	146,170	110,016	126,982
More than five years	56,572	86,162	53,956	80,724
	346,128	359,362	306,044	310,992
Less: future finance charge	(40,084)	(48,370)	–	–
Present value of lease obligations	306,044	310,992	306,044	310,992
Less: Amount due for settlement within one year shown under current liabilities			(69,164)	(51,693)
Amount due for settlement after one year shown under non-current liabilities			236,880	259,299

Finance lease obligations of the transportation equipment are denominated in USD, which is the foreign currency of the relevant group entities. Finance lease obligations of the group are secured by the leased assets.

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41. SENIOR NOTES AND BONDS

Issue date	Note	Maturity	Principal '000	Nominal interest rate	Effective interest rate	Carrying amount at	
						2018 RMB'000	2017 RMB'000
Senior notes:							
2013 senior notes due 2020	(a)	7 years	USD250,000	10.75%	11.27%	1,788,416	1,707,273
2015 senior notes due 2018	(b)	3 years	USD200,000	11.50%	12.60%	–	1,313,578
2016 RMB senior notes due 2019	(c)	3 years	RMB1,600,000	9.50%	10.66%	1,618,033	1,601,413
2016 USD senior notes due 2021	(d)	5 years	USD500,000	7.38%	7.70%	3,465,913	3,280,574
2017 senior notes due 2018	(e)	1 year	USD487,000	5.50%	6.98%	–	3,171,032
2017 senior notes due 2022	(f)	5 years	USD300,000	7.95%	8.26%	2,119,621	2,013,652
2018 USD300 million senior notes due 2019	(g)	1 year	USD300,000	7.25%	8.12%	2,023,783	–
2018 USD600 million senior notes due 2021	(h)	3 years	USD600,000	8.38%	9.30%	4,152,553	–
2018 senior notes due 2020	(i)	2 years	USD100,000	12.00%	12.74%	689,523	–
2018 USD140 million senior notes due 2019	(j)	1 year	USD140,000	12.00%	12.96%	1,009,001	–
2018 USD200 million senior notes due 2021	(k)	3 years	USD200,000	15.00%	15.64%	1,359,964	–
						18,226,807	13,087,522
Corporate bonds:							
Fantasia Bonds							
2015 bonds due 2020	(l)	5 years	RMB2,000,000	7.95%	7.31%	2,000,219	2,021,962
2016 bonds due 2020	(m)	4 years	RMB1,100,000	7.95%	7.47%	1,086,005	1,095,052
2016 RMB3,000 million bonds due 2019	(n)	3 years	RMB3,000,000	8.50% – 9.00%	8.11% – 9.00%	1,579,258	3,047,804
2018 bonds due 2021	(o)	3 years	RMB1,000,000	7.50%	7.62%	999,953	–
Colour Life Bonds							
2016 RMB100 million bonds due 2019	(p)	3 years	RMB100,000	6.70%	7.91%	106,092	104,977
2016 RMB300 million bonds due 2019	(q)	3 years	RMB300,000	8.00%	12.86%	61,493	301,394
2017 bonds due 2020	(r)	3 years	RMB150,000	7.00%	8.40%	147,916	146,231
						5,980,936	6,717,420
						24,207,743	19,804,942
Carrying amounts repayable:							
Within one year						6,397,660	4,484,610
More than one year, but not exceeding two years						6,712,032	5,055,588
More than two years, but not exceeding five years						11,098,051	10,264,744
						24,207,743	19,804,942
Less: amounts due within one year shown under current liabilities						(6,397,660)	(4,484,610)
Amounts due after one year shown under non-current liabilities						17,810,083	15,320,332

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41. SENIOR NOTES AND BONDS (continued)

Notes:

- (a) The Company issued senior notes on the Singapore Exchange Securities Trading Limited (the "SGX"). The senior notes are guaranteed by certain subsidiaries of the Company and the interests are payable semi-annually in arrears.

- (b) 2013 senior notes due 2020

On 22 January 2013, the Company issued guaranteed senior notes in an aggregate principal amount of USD250,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the principal amount and related interest up to 22 January 2020 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time on or after 22 January 2017, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to 100% percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Period	Redemption price
22 January 2017 – 21 January 2018	105.3750%
22 January 2018 – 21 January 2019	102.6875%
22 January 2019 and thereafter	100.0000%

- (c) 2015 senior notes due 2018

On 27 May 2015, the Company issued guaranteed senior notes in an aggregate principal amount of USD200,000,000. During the year ended 31 December 2018, the senior notes were repaid upon maturity in 2018. No gain or loss on redemption of senior notes is recognised in profit or loss.

- (d) 2016 RMB senior notes due 2019

In 2016, the Company issued guaranteed senior notes of RMB1,600,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal RMB'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum per annum
First	4 May 2016	600,000	100.000%	9.50%	10.66%
Second	29 August 2016	1,000,000	101.625%	9.50%	10.66%

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 4 May 2019, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the excess of the amount equivalent to the principal amount and related interest up to 4 May 2019 discounted at 2% over the principal amount on such redemption date.

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41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(d) 2016 RMB senior notes due 2019 (continued)

- (ii) At any time and from time to time prior to 4 May 2019, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company at a redemption price of 109.50% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(e) 2016 USD senior notes due 2021

In 2016, the Company issued guaranteed senior notes of USD500,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum per annum
First	4 October 2016	400,000	100.000%	7.375%	7.70%
Second	29 December 2016	100,000	99.884%	7.375%	7.70%

The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 4 October 2019, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the 12 month period beginning on 4 October of the years indicated below.

Period	Redemption price
4 October 2019 – 3 October 2020	103.688%
4 October 2020 and thereafter	101.844%

- (ii) At any time prior to 4 October 2019, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 4 October 2019 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (iii) At any time and from time to time prior to 4 October 2019, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 107.375% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(f) 2017 senior notes due 2018

On 13 June 2017, the Company issued guaranteed senior notes in an aggregate principal amount of USD487,000,000. During the year ended 31 December 2018, the senior notes were repaid upon maturity in 2018. No gain or loss on redemption of senior notes is recognised in profit or loss.

For the year ended 31 December 2018

41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(g) 2017 senior notes due 2022

On 5 July 2017, the Company issued guaranteed senior notes in an aggregate principal amount of USD300,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time and from time to time on or after 5 July 2020, the Company may at its option redeem the senior notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the 12 month period beginning on 5 July of the years indicated below.

Period	Redemption price
5 July 2020 – 4 July 2021	103.9750%
5 July 2021 and thereafter	101.9875%

- (ii) At any time prior to 5 July 2020, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 5 July 2020 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (iii) At any time and from time to time prior to 5 July 2020, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 107.95% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(h) 2018 USD300 million senior notes due 2019

On 14 February 2018, the Group issued guaranteed senior notes in an aggregate principal amount of USD300,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 13 February 2019, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 13 February 2019 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time prior to 14 February 2019, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 107.25% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 30 days after the closing of the related equity offering.

In November 2018, the Company repurchased the senior notes with the principal amount of USD12,740,000 at a total consideration of USD12,605,000, equivalent to RMB85,101,000. The gain on repurchase of senior notes of RMB2,397,000 is recognised in profit or loss. Upon completion of the repurchase, all repurchased senior notes were cancelled.

For the year ended 31 December 2018

41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(i) 2018 USD600 million senior notes due 2021

During the year ended 31 December 2018, the Company issued guaranteed senior notes of USD600,000,000 by three tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum per annum
First	8 March 2018	350,000	100%	8.375%	9.30%
Second	19 March 2018	100,000	100%	8.375%	9.30%
Third	10 May 2018	150,000	96.285%	8.375%	9.30%

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 8 March 2021, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 8 March 2021 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time prior to 8 March 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 108.375% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(j) 2018 senior notes due 2020

On 1 June 2018 the Group issued guaranteed senior notes in aggregate principal amounts of USD100,000,000.

In December 2018, the Company offered all of the holders of the senior notes accepted the exchange consideration to adjust the coupon interest rate from 8.5% per annum to 12.0% per annum and postpone the maturity date from 4 June 2019 to 4 June 2020. The effective interest rate is revised from 10.66% per annum to 12.74% per annum. The loss on modification of senior notes of RMB4,040,000 is recognised in profit or loss at the date of modification.

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 4 June 2020, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum and the exchange offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 4 June 2020 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

For the year ended 31 December 2018

41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(j) 2018 senior notes due 2020 (continued)

- (ii) At any time and from time to time prior to 4 June 2020, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of issuance of ordinary shares of the Company in an equity offering at a redemption price of 112.0% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(k) 2018 USD140 million senior notes due 2019

On 16 July 2018 the Group issued guaranteed senior notes in aggregate principal amounts of USD140,000,000. The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 15 July 2019, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 15 July 2019 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

- (ii) At any time and from time to time prior to 15 July 2019, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of issuance of ordinary shares of the Company in an equity offering at a redemption price of 112.0% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(l) 2018 USD200 million senior notes due 2021

During the year ended 31 December 2018, the Company issued guaranteed senior notes of USD200,000,000 by two tranches detailed as below:

Tranche	Issue date	Principal USD'000	Issued price % of principal	Nominal interest rate per annum	Effective interest rate per annum per annum
First	13 December 2018	130,000	100%	15%	15.64%
Second	21 December 2018	70,000	100%	15%	15.64%

The senior notes may be redeemed in the following circumstances:

- (i) At any time prior to 18 December 2021, the Company may at its option redeem the senior notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the senior notes plus applicable premium as defined in the offering memorandum as of, and accrued and unpaid interest, if any to (but not including) the redemption date.

The applicable premium is the greater of 1% of the principal amount of such senior notes or the excess of the amount equivalent to the of principal amount and related interest up to 18 December 2021 discounted at a rate equal to comparable treasury price in the USA plus 100 basis points over the principal amount.

For the year ended 31 December 2018

41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(l) 2018 USD200 million senior notes due 2021 (continued)

- (ii) At any time and from time to time prior to 18 December 2021, the Company may redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of the issuance of ordinary shares of the Company in an equity offering at a redemption price of 115.0% of the principal amount of the senior notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the senior notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(m) 2015 bonds due 2020

On 18 September 2015, a wholly-owned subsidiary of the Company, Fantasia Group (China) Co., Ltd. (花樣年集團(中國)有限公司) ("Fantasia Group China") issued domestic corporate bonds of RMB2,000,000,000, which are listed on the Shanghai Stock Exchange ("SSE"). The corporate bonds are unsecured, carry interest at rate of 6.95% per annum and interest is payable annually. The effective interest rate of the senior notes is 7.30% per annum. The corporate bonds will mature on 16 September 2020 unless the holders sell back the bonds to Fantasia Group China earlier.

At the end of the third year subsequent to the inception date, Fantasia Group China as the issuer is entitled to adjust interest rate and the corporate bond holders may at their options to sell back the bonds to Fantasia Group China in whole or in part at face value of their principal amount.

In September 2018, Fantasia Group China adjusted the coupon interest rate from 6.95% per annum to 7.95% per annum and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB43,295,000 to Fantasia Group China. For the remaining corporate bonds of RMB1,956,705,000, the coupon interest rate is adjusted to 7.95% per annum. The effective interest rate is revised from 7.30% per annum to 7.31% per annum. The loss on modification of corporate bonds of RMB12,686,000 is recognised in profit or loss at the date of modification.

(n) 2016 bonds due 2020

On 4 January 2016, a wholly-owned subsidiary of the Company, Fantasia Group China issued public domestic corporate bonds of RMB1,100,000,000, which are listed on the Shenzhen Stock Exchange ("SZSE"). The corporate bonds are unsecured, carry interest at rate of 7.29% per annum and interest is payable annually. The effective interest rate of the senior notes is approximately 7.46% per annum. The corporate bonds will mature on 31 December 2020 unless the holders sell back the bonds to Fantasia Group China earlier.

At the end of the third year subsequent to the inception date, Fantasia Group China as the issuer is entitled to adjust interest rate and the corporate bond holders may at their options to sell back the bonds to Fantasia Group China in whole or in part at face value of their principal amount.

In December 2018, Fantasia Group China adjusted the coupon interest rate from 7.29% per annum to 7.95% per annum and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB14,008,000 to Fantasia Group China. For the remaining corporate bonds of RMB1,085,992,000, the coupon interest rate is adjusted to 7.95% per annum. The effective interest rate is revised from 7.46% per annum to 7.47% per annum. The loss on modification of corporate bonds of RMB3,582,000 is recognised in profit or loss at the date of modification.

For the year ended 31 December 2018

41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(o) 2016 RMB3,000 million bonds due 2019

During the year ended 31 December 2016, Fantasia Group China issued non-public domestic corporate bonds of RMB3,000,000,000 in aggregation by five tranches detailed as below:

Tranche	Issue date	Maturity date	Coupon interest rate per annum	Principal RMB'000
First tranche	19 May 2016	19 May 2019	7.5%	500,000
Second tranche	15 July 2016	15 July 2019	6.8%	331,000
Third tranche	17 August 2016	17 August 2019	7.2%	1,300,000
Fourth tranche	23 August 2016	23 August 2019	7.3%	300,000
Fifth tranche	7 September 2016	7 September 2019	6.6%	569,000

The corporate bonds are unsecured and interest is payable annually. The five tranches of domestic corporate bonds will mature in 2019, unless Fantasia Group China redeem earlier or the holders sell back the bonds to Fantasia Group China earlier.

At the end of the second year subsequent to the inception dates, Fantasia Group China as the issuer is entitled to adjust interest rate and the holders may at their options to sell back the bonds to Fantasia Group China in whole or in part at face value of their principal amount.

During the year ended 31 December 2018, Fantasia Group China redeemed the first tranche of corporate bonds with its principal amount of RMB500,000,000 at a price of RMB500,027,000, resulting in a loss on early redemption of RMB3,372,000 is recognised in profit or loss. Upon completion of the redemption, all redeemed corporate bonds were cancelled.

During the year ended 31 December 2018, Fantasia Group China adjusted the coupon interest rates of the second, third, fourth and fifth corporate bonds set forth below and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB970,000,000 to Fantasia Group China. The loss on modification of corporate bonds of RMB24,902,000 is recognised in profit or loss at the date of modification.

Tranche	Original coupon interest rate per annum	Adjusted coupon interest rate per annum	Original effective interest rate per annum	Adjusted effective interest rate per annum	Sell-back portion RMB'000	Remaining portion RMB'000
Second tranche	6.8%	8.5%	7.52%	8.11%	–	331,000
Third tranche	7.2%	8.5%	8.05%	8.50%	950,000	350,000
Fourth tranche	7.3%	9.0%	8.29%	9.00%	10,000	290,000
Fifth tranche	6.6%	9.0%	7.97%	9.00%	10,000	559,000

(p) 2018 bonds due 2021

On 17 December 2018, Fantasia Group China issued domestic corporate bonds of RMB1,000,000,000. The corporate bonds were issued at 100% of the principal amount and are listed on the SSE. The corporate bonds are unsecured, carry interest at rate of 7.5% per annum and interest is payable annually. The corporate bonds will mature on 17 December 2021 unless the holders sell back the bonds to Fantasia Group China earlier.

At the end of the second year subsequent to the inception date, Fantasia Group China as the issuer is entitled to adjust interest rate and the holders may at their options to sell back the bonds to Fantasia Group China in whole or in part at face value of their principal amount.

For the year ended 31 December 2018

41. SENIOR NOTES AND BONDS (continued)

Notes: (continued)

(q) 2016 RMB100 million bonds due 2019

On 29 January 2016, Shenzhen Colour Life Services Group Co., Limited (深圳市彩生活服务集团有限公司) ("Shenzhen Colour Life"), a non-wholly owned subsidiary of the Company, issued first tranche of non-public domestic corporate bonds of RMB100,000,000, which are secured, carry interest at rate of 6.7% per annum and interest is payable annually, commencing on 29 January 2017 and will mature on 28 January 2019. The effective interest rate is 7.91% per annum.

(r) 2016 RMB300 million bonds due 2019

On 9 September 2016, Shenzhen Colour Life issued non-public domestic corporate bonds of RMB300,000,000, which are secured, carry interest at rate of 7.00% per annum and interest is payable annually, commencing on 9 September 2017 and will mature on 8 September 2019, respectively. The effective interest rate is 8.1% per annum.

At the end of the second year, Shenzhen Colour Life as the issuer is entitled to adjust the interest rate and the holders of corporate bonds of RMB300,000,000 may at their options to sell back the bonds to the Group in whole or in part at face value of their principal amount.

In September 2018, Shenzhen Colour Life adjusted the coupon interest rate from 7.0% per annum to 8.0% per annum and certain holders of corporate bonds exercised the put options and sold back certain corporate bonds in aggregate principal amount of RMB240,000,000 to Shenzhen Colour Life. For the remaining corporate bonds of RMB60,000,000, the coupon interest rate is adjusted to 8.0% per annum. The effective interest rate is revised from 8.13% per annum to 12.86% per annum. The loss on modification of corporate bonds of RMB3,140,000 is recognised in profit or loss at the date of modification.

(s) 2017 bonds due 2020

On 10 November 2017, Shenzhen Colour Life issued non-public domestic corporate bonds in aggregate principal amount of RMB150,000,000. The corporate bonds will mature on 10 November 2020.

The movements of the senior notes and bonds during the year are set out below:

	2018 RMB'000	2017 RMB'000
At 1 January	19,804,942	18,379,625
Net proceeds on the date of issuance	9,505,647	5,419,191
Exchange loss (gain)	792,533	(670,399)
Interest expenses	1,942,299	1,649,157
Payment of interest	(1,630,264)	(1,495,033)
Extinguishment of bonds upon substantial modification	(1,184,799)	–
Recognition of bonds upon substantial modification	1,199,000	–
Adjustment to carrying amounts of senior notes and bonds upon non-substantial modification	34,149	–
Repayment of senior notes and bonds	(4,404,253)	(1,454,238)
Repurchase/early redemption of senior notes and bonds	(1,851,511)	(2,023,361)
At 31 December	24,207,743	19,804,942

For the year ended 31 December 2018

42. ASSET-BACKED SECURITIES ISSUED

	NOTES	2018 RMB'000	2017 RMB'000
Asset-backed securities issued			
2016 ABS	(a)	174,228	227,737
2018 ABS	(b)	86,191	–
		260,419	227,737
Carrying amounts repayable:			
Within one year		96,666	42,533
More than one year, but not exceeding two years		62,117	56,986
More than two years, but not exceeding five years		101,636	128,218
		260,419	227,737
Less: amounts due within one year shown under current liabilities		(208,636)	(42,533)
Amounts due after one year included in non-current liabilities		51,783	185,204

Notes:

- (a) In August 2016, Shenzhen Colour Life issued asset-backed securities (“2016 ABS”) under securitisation arrangements collateralised by the future earnings relating to property management fee and guaranteed by Fantasia China. The 2016 ABS were issued at discount of 5.0% with aggregate nominal value of RMB300,000,000 which carry interests ranging from 4.5% to 6.1% per annum. Under the securitisation arrangement, the principal and interests are payable quarterly and with maturity from November 2016 to August 2021. The effective interest rates ranges from 6.9% to 8.3% per annum.

For certain portion of 2016 ABS amounting to RMB135,000,000, in August 2019, Shenzhen Colour Life as the issuer is entitled to adjust the interest rate and the holders of 2016 ABS may at their options to sell back the 2016 ABS to the Group in whole or in part at face value of their principal amount. Therefore, the carrying amount of 2016 ABS amounting to RMB135,000,000 are classified as current liabilities as at 31 December 2018. The directors considered that the fair value of the put options is insignificant on initial recognition, 31 December 2017 and 2018.

- (b) In January 2018, Shenzhen Colour Life issued the asset-backed securities (“2018 ABS”) under securitisation arrangements collateralised by the future earnings relating to property management fee and guaranteed by Fantasia China. The 2018 ABS were issued at discount of 1.8% with aggregate nominal value of RMB100,000,000 which carry interests ranging from 6.5% to 7.3% per annum. Under the securitisation arrangement, the principal and interests are payable semi-annually and with maturity from January 2019 to January 2021. The effective interest rates ranges from 6.9% to 7.5% per annum.

For certain portion of 2018 ABS amounting to RMB36,000,000, at the end of second year, Shenzhen Colour Life as the issuer is entitled to adjust the interest rate and the holders of 2018 ABS may at their options to sell back the 2018 ABS to the Group in whole or in part at face value of their principal amount. The directors considered that the fair value of the put options is insignificant on initial recognition and 31 December 2018.

For the year ended 31 December 2018

42. ASSET-BACKED SECURITIES ISSUED (continued)

The movement of the asset-backed securities issued during the year is set out below:

	2018 RMB'000	2017 RMB'000
At 1 January	227,737	275,084
Net proceeds on the date of issuance of asset-backed securities issued	98,236	–
Interest expenses	22,083	19,332
Repayment of principal	(71,250)	(51,250)
Interest paid	(16,387)	(15,429)
At 31 December	260,419	227,737

43. PROVISIONS

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Current liabilities	30,740	40,131

	Properties provision RMB'000 (note a)	Warranty provision RMB'000 (note b)	Total RMB'000
At 1 January 2018	20,491	19,640	40,131
Addition of provision	–	13,575	13,575
Utilisation of provision	–	(22,966)	(22,966)
At 31 December 2018	20,491	10,249	30,740

Notes:

- (a) In 2013, the Group acquired Shenzhen Tengxing Hongda Investment Development Co., Ltd. (深圳騰星宏達投資發展有限公司) (“Shenzhen Tengxing”) from an independent third party. Pursuant to the sales and purchase agreement, the Group agreed with the former equity holder of Shenzhen Tengxing that after the property project construction completed by the Group, the Group is required to transfer 5% of the completed property of this property project to the former shareholder of Shenzhen Tengxing. The cost incurred for construction of this 5% completed property is accounted for as a provision. The property project construction was completed on 31 December 2018 and under the handover process with the former shareholder as at 31 December 2018.
- (b) The provision represented the warranty provision granted on fuel pumps, which is the management’s best estimate of the Group’s liability under 1 year warranty granted on fuel pumps, based on prior experience and industry averages for defective products.

For the year ended 31 December 2018

44. SHARE CAPITAL

	Number of shares	Amount HK\$	Equivalent to RMB'000
Ordinary shares of HK0.1 each			
Authorised:			
At 1 January 2017, 31 December 2017 and 2018	8,000,000,000	800,000,000	704,008
Issued and fully paid:			
At 1 January 2017	5,761,797,064	576,179,706	497,848
Issue of shares upon exercise of share options	225,160	22,516	20
At 31 December 2017	5,762,022,224	576,202,222	497,868
Issue of shares upon exercise of share options	921,680	92,168	77
At 31 December 2018	5,762,943,904	576,294,390	497,945

45. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries

For the year ended 31 December 2018

Name of subsidiaries acquired	Place of establishment/ incorporation	Acquisition date	Equity interest acquired	Equity interest held by the Group after acquisition	Consideration RMB'000
鄂州鑫港置業有限公司 Ezhou Xingang Real Estate Co., Ltd. ("Ezhou Xingang") (note i)	PRC	28 February 2018	100%	100%	364,436
南京星潤置業有限公司 Nanjing Xingrun Real Estate Co., Ltd. ("Nanjing Xingrun") (note i)	PRC	28 February 2018	100%	100%	266,100
武漢欣城開實業有限公司 Wuhan Xinchengkai Real Estate Co., Ltd. ("Wuhan Xinchengkai") (note i)	PRC	30 April 2018	90%	90%	30,000
唐山金盛房地產開發有限公司 Tangshan Jinsheng Real Estate Co., Ltd. ("Tangshan Jinsheng") (note i)	PRC	31 May 2018	51%	51%	43,000

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2018 (continued)

Name of subsidiaries acquired	Place of establishment/ incorporation	Acquisition date	Equity interest acquired	Equity interest held by the Group after acquisition	Consideration RMB'000
寧波杭州灣新區民恒房地產開發有限公司 Ningbo Hangzhou New District Minheng Real Estate Co., Ltd. ("Ningbo Minheng") (note i)	PRC	31 July 2018	90%	90%	297,000
Jianian Dingsheng (note ii)	PRC	31 August 2018	2%	51%	15,893
Jiaxing Fangyan (note iii)	PRC	31 August 2018	–	100%	–

Notes:

- (i) Ezhou Xingang, Nanjing Xingrun, Wuhan Xinchengkai, Tangshan Jinsheng and Ningbo Minheng are engaging in property development in the PRC and the major assets of them are investment properties, the undeveloped land for future property development or land with minimal construction work performed. The acquisitions were accounted for as purchase of assets and liabilities that does not constitute business combinations.
- (ii) Upon the completion of capital injection amounting to RMB15,893,000 by the Group as described in note 18(c) during the year ended 31 December 2018, the Group holds 51% equity interests in Jianian Dingsheng and is able to exercise control over Jianian Dingsheng. Jianian Dingsheng and its subsidiaries hold a property project located in Sichuan which has started to pre-sale the properties and significant processes are applied to the property project. At the time of acquisition, the directors of the Company are of the view that the acquisition of Jianian Dingsheng constitutes a business combination.
- (iii) During the year ended 31 December 2018, the Group entered into a supplemental partnership agreement with the investment partner, regarding the revision of the cooperation agreement of Jiaxing Fangyan. Pursuant to the supplemental partnership agreement, the Group has effective control over Jiaxing Fangyan, which became a wholly-owned subsidiary of the Company. Details are set out in note 19. The major asset held by Jiaxing Fangyan is the Debt Instrument as detailed in note 20. The acquisitions are accounted for as purchase of assets and liabilities that does not constitute a business combination.

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2018 (continued)

Assets acquired and liabilities recognised at the dates of acquisition are as follows:

	Acquisition of Jianian Dingsheng under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Net assets acquired			
Property, plant and equipment	295,700	–	295,700
Investment properties	–	109,981	109,981
Prepaid lease payments	19,234	–	19,234
Financial assets at FVTPL (note)	–	1,100,000	1,100,000
Properties under development for sale	4,356,701	2,268,013	6,624,714
Amounts due from certain subsidiaries of the Company	236,033	–	236,033
Trade and other receivables	684,133	979	685,112
Tax recoverable	34,025	–	34,025
Bank balances and cash	476,100	24,834	500,934
Trade and other payables	(464,466)	(71,355)	(535,821)
Contract liabilities	(980,773)	–	(980,773)
Amounts due to certain subsidiaries of the Company	(1,127,290)	(1,302,363)	(2,429,653)
Borrowings	(2,734,730)	(1,000,000)	(3,734,730)
	794,667	1,130,089	1,924,756

Note: As at the date of acquisition, the fair value of financial assets at FVTPL acquired was estimated by an independent valuer through application of probability weighted expected return model, details of which are set out in note 49(c).

For acquisition of Jianian Dingsheng under business combination, at the dates of acquisitions during the year ended 31 December 2018, the trade and other receivables (including amounts due from certain subsidiaries of the Company) acquired with a fair value of RMB920,166,000 approximate its gross contractual amount, with no significant contractual cash flows not expected to be collected.

Acquisition-related costs were insignificant and have been excluded from the cost of acquisition and were recognised as an expense in the year incurred within the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2018 (continued)

Assets acquired and liabilities recognised at the dates of acquisition are as follows: (continued)

	Acquisition of Jianian Dingsheng under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Total consideration satisfied by:			
Cash	–	184,100	184,100
Capital injected by the Group	15,893	–	15,893
Deposits paid in prior years	–	575,000	575,000
Consideration payables due within one year included in trade and other payables	–	241,436	241,436
	15,893	1,000,536	1,016,429
Add: Non-controlling interests	389,387	29,553	418,940
Fair value of the Group's previously held equity instruments designated at FVTOCI			
– Jiaxing Fangyan	–	100,000	100,000
Fair value of the Group's previously held equity interests in joint ventures			
– Jianian Dingsheng	389,387	–	389,387
	794,667	1,130,089	1,924,756

The fair value of the Group's previously held equity interests in Jianian Dingsheng is estimated by an independent valuer through application of income approach and the key inputs of the valuation are the gross development value on completion basis, construction costs to completion and the discount rates. The difference between the fair value and the carrying amount of the Group's previously held interests in joint ventures amounting to RMB384,487,000 was recognised as gain on remeasurement during the year ended 31 December 2018.

	Acquisition of Jianian Dingsheng under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Net cash inflow (outflow) arising on acquisitions			
Cash consideration paid in current year	–	(184,100)	(184,100)
Capital injected by the Group	(15,893)	–	(15,893)
Bank balances and cash acquired	476,100	24,834	500,934
	460,207	(159,266)	300,941

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2017

Name of subsidiaries acquired	Place of establishment/ incorporation	Acquisition date	Equity interest acquired	Equity interest held by the Group after acquisition	Consideration RMB'000
江西銀盛房地產開發有限公司 Jiangxi Yinsheng Real Estate Co., Ltd. ("Jiangxi Yinsheng") (note i)	PRC	31 March 2017	100%	100%	10,000
武漢市嘉倫誠泰商貿有限公司 Wuhan Jialun Chengtai Commercial Trading Co., Ltd. ("Wuhan Jialun") (note i)	PRC	31 March 2017	67%	67%	30,000
太倉起浩商貿有限公司 Taicang Qihao Commercial Trading Co., Ltd. ("Taicang Qihao") (note i)	PRC	30 June 2017	100%	100%	275,973
成都牽銀投資有限公司 Chengdu Qianyin Investment Co., Ltd. ("Chengdu Qianyin") (note i)	PRC	31 August 2017	100%	100%	118,905
南京中儲房地產開發有限公司 Nanjing Zhongchu Property Development Co., Ltd. ("Nanjing Zhongchu") (note i and ii)	PRC	31 August 2017	10%	70%	73,323
武漢中森華永紅房地產開發有限公司 Wuhan Zhongsenhua Yonghong Property Development Co., Ltd. ("Wuhan Zhongsenhua") (note i)	PRC	30 September 2017	100%	100%	127,000
惠州市光亮房地產開發有限公司 Huizhou Guangliang Property Development Co., Ltd. ("Huizhou Guangliang") (note i)	PRC	30 November 2017	100%	100%	1,630,000
四川互興商貿有限公司 Sichuan Genxing Commercial Trading Co., Ltd. ("Sichuan Genxing") (note i)	PRC	31 December 2017	100%	100%	2,456

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2017 (continued)

Notes:

- (i) Jiangxi Yinsheng, Wuhan Jialun, Taicang Qihao, Chengdu Qianyin, Nanjing Zhongchu, Wuhan Zhongsenhua, Huizhou Guangliang and Sichuan Genxing are engaging in property development in the PRC and the major assets of them are investment properties, the undeveloped land for future property development or land with minimal construction work performed. The acquisitions were accounted for as purchase of assets and liabilities that does not constitute business combinations.
- (ii) Nanjing Zhongchu holds a property project located in Nanjing which has started to pre-sale the properties and significant processes are applied to the properties. At the time of acquisition, the directors of the Company are of the view that the acquisition of Nanjing Zhongchu constitutes a business combination.

During the year ended 31 December 2017, the Group acquired 10% equity interest of Nanjing Zhongchu from the other joint venture partner. Except for the acquisition of Nanjing Zhongchu, the remaining subsidiaries were acquired from independent third parties. The acquisitions were accounted for as purchase of assets and liabilities.

Assets acquired and liabilities recognised at the dates of acquisition are as follows:

	Acquisition of Nanjing Zhongchu under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Net assets acquired			
Property, plant and equipment	249	2,268	2,517
Investment properties	–	800,992	800,992
AFS investments	–	1,300	1,300
Properties under development for sale	2,535,711	2,400,563	4,936,274
Trade and other receivables	83,657	217,543	301,200
Tax recoverable	19,878	2,088	21,966
Bank balances and cash	66,309	8,719	75,028
Trade and other payables	(4,838)	(1,089,507)	(1,094,345)
Deposits received for sale of properties	(545,789)	–	(545,789)
Amounts due to certain subsidiaries of the Company	(284,026)	–	(284,026)
Borrowings	(1,300,000)	(137,030)	(1,437,030)
	571,151	2,206,936	2,778,087

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2017 (continued)

For acquisition of Nanjing Zhongchu under business combination, at the dates of acquisitions during the year ended 31 December 2017, the trade and other receivables acquired with a fair value of RMB83,657,000 approximate its gross contractual amount, with no significant contractual cash flows not expected to be collected.

Acquisition-related costs were insignificant and have been excluded from the cost of acquisition and were recognised as an expense in the year incurred within the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

	Acquisition of Nanjing Zhongchu under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Total consideration satisfied by:			
Cash	–	910,553	910,553
Consideration payables due within one year included in trade and other payables	73,323	1,283,781	1,357,104
	73,323	2,194,334	2,267,657
Add: Non-controlling interests	57,890	12,602	70,492
Fair value of the Group's previously held equity interests in joint ventures			
– Nanjing Zhongchu	439,938	–	439,938
	571,151	2,206,936	2,778,087

The fair value of the Group's previously held equity interests in Nanjing Zhongchu is estimated by an independent valuer through application of income approach and the key inputs of the valuation are the gross development value on completion basis, construction costs to completion and the discount rates. The difference between the fair value and the carrying amount of the Group's previously held interests in joint ventures amounting to RMB103,489,000 was recognised as gain on remeasurement during the year ended 31 December 2017.

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(a) Acquisition of property projects and other assets and liabilities through acquisition of subsidiaries (continued)

For the year ended 31 December 2017 (continued)

	Acquisition of Nanjing Zhongchu under business combination RMB'000	Purchase of assets and liabilities in aggregate RMB'000	Total RMB'000
Net cash inflow (outflow) arising on acquisitions			
Cash consideration paid in current year	–	(910,553)	(910,553)
Bank balances and cash acquired	66,309	8,719	75,028
	66,309	(901,834)	(835,525)

(b) Acquisition of property operation businesses

For the year ended 31 December 2018

During the year ended 31 December 2018, the Group acquired the following companies at a total consideration of RMB51,877,000. At the time of acquisition, the directors of the Company are of the view that the acquisition constitutes businesses combination. The transactions have been accounted for using the purchase method accordingly. The aforesaid subsidiaries were acquired so as to continue the expansion of the Group's property operation services.

Name of subsidiaries acquired	Consideration RMB'000	Acquisition date	Equity interest acquired	Principal activities
泗陽嘉華物業管理有限公司 Siyang Jiahua Property Management Co., Ltd.	2,580	31 March 2018	80%	Provision of property operation services
江蘇志遠物業服務有限公司 Jiangsu Zhiyuan Property Services Co., Ltd.	3,009	31 March 2018	85%	Provision of property operation services
杭州卓盛物業管理有限公司 Hangzhou Zhuosheng Property Management Co., Ltd.	33,988	31 December 2018	80%	Provision of property operation services
柳州市中實物業服務有限責任公司 Liuzhou Zhongshi Property Services Co., Ltd.	11,000	31 December 2018	90%	Provision of property operation services
宿遷中尚物業管理有限公司 Suqian Zhongshang Property Management Co., Ltd.	1,300	31 December 2018	90%	Provision of property operation services

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2017

During the year ended 31 December 2017, the Group acquired the following companies at a total consideration of RMB1,238,652,000. At the time of acquisition, the directors of the Company are of the view that the acquisition constitutes businesses combination. The transactions have been accounted for using the purchase method accordingly. The aforesaid subsidiaries were acquired so as to continue the expansion of the Group's property operation services.

Name of subsidiaries acquired	Consideration RMB'000	Acquisition date	Equity interest acquired	Principal activities
福建永嘉商業物業管理有限公司 Fujian Yongjia Commercial Property Management Co., Ltd.	1,200	31 March 2017	60%	Provision of property operation services
武漢天宇弘物業管理有限公司 Wuhan Tianyuhong Property Management Co., Ltd. ("Wuhan Tianyuhong") (note ii)	4,800	31 March 2017	80%	Provision of property operation services
寶鷄市彩生活物業管理有限公司 Baoji Colour Life Property Management Co., Ltd. ("Baoji Jufeng") (note ii)	3,500	31 March 2017	70%	Provision of property operation services
九江中輝恒佳物業服務有限公司 Jiujiang Zhonghui Hengjia Property Service Co., Ltd. ("Jiujiang Zhonghui") (note ii)	– (note i)	31 March 2017	100%	Provision of property operation services
深圳市前海微生活網路服務有限公司 Shenzhen Qianhai Weishenghuo Internet Services Co., Ltd.	– (note i)	31 August 2017	100%	Provision of property operation services
長沙市觀瀾湖物業服務有限公司 Changsha Guanlanhu Property Services Co., Ltd.	30,000	30 September 2017	80%	Provision of property operation services
南昌福田物業管理有限公司 Nanchang Futian Property Management Co., Ltd.	11,980	30 September 2017	80%	Provision of property operation services
常州源鑫物業服務有限公司 Changzhou Yuanxin Property Management Co., Ltd.	10,000	30 September 2017	100%	Provision of property operation services
高郵市通揚物業服務有限公司 Gaoyou Tongyang Property Services Co., Ltd.	3,300	30 September 2017	70%	Provision of property operation services
成都浩佳物業服務有限公司 Chengdu Haojia Property Management Co., Ltd.	15,800	30 September 2017	90%	Provision of property operation services

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2017 (continued)

Name of subsidiaries acquired	Consideration RMB'000	Acquisition date	Equity interest acquired	Principal activities
武漢九坤捷城物業管理有限公司 Wuhan Jiukun Jiecheng Property Management Co., Ltd.	– (note i)	30 September 2017	70%	Provision of property operation services
常州九洲福安物業服務有限公司 Changzhou Jiuzhou Fuan Property Services Co., Ltd.	39,700	30 November 2017	100%	Provision of property operation services
濟南齊華物業管理有限公司 Jinan Qihua Property Management Co., Ltd.	7,000	30 November 2017	51%	Provision of property operation services
本溪金利物業有限公司 Benxi Jinli Property Co., Ltd.	6,200	31 December 2017	80%	Provision of property operation services
上海同涑物業管理有限公司 Shanghai Tonglai Property Management Co., Ltd.	100,000	31 December 2017	100%	Provision of property operation services
上海友全物業管理有限公司 Shanghai Youquan Property Management Co., Ltd.	12,652	31 December 2017	70%	Provision of property operation services
Shenzhen Wanxiang (note ii and iii)	992,520	31 December 2017	50%	Provision of property operation services

Notes:

- (i) The consideration was less than RMB1,000.
- (ii) During the year ended 31 December 2017, the Group acquired 80%, 70% and 100% equity interest of Wuhan Tianyuhong, Baoji Jufeng and Jiujiang Zhonghui, respectively, from certain non-controlling shareholders of subsidiaries of the Company other than the aforesaid acquirees, and acquired 100% equity interest in Shenzhen Jiabin from a joint venture partner of the Group. Except for the acquisitions of Wuhan Tianyuhong, Baoji Jufeng and Jiujiang Zhonghui, the remaining subsidiaries were acquired from independent third parties.

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2017 (continued)

Notes: (continued)

- (iii) Shenzhen Wanxiang was incorporated and acquired 99% equity interest in Wanxiangmei Property Management Co., Ltd. (萬象美物業管理有限公司) (“Wanxiangmei”) in 2016. Wanxiangmei is principally engaged in provision of property management services in the PRC. The remaining 1% equity interest in Wanxiangmei was held by the Group. On 29 December 2017, the Group acquired the 100% equity interest in Shenzhen Jiaxin, a limited partner of Shenzhen Wanxiang, from Chuangshi Jianian, a joint venture of the Group, at a consideration of RMB992,520,000. On the same day, the Group entered into a supplemental partnership agreement with other partners regarding the revision of the terms of the cooperation. Pursuant to the supplemental agreement, the investment committee of Shenzhen Wanxiang, the governing body which directs the relevant activities that significantly affects the investment decision and returns of Shenzhen Wanxiang, consists of five members of which the Group and the other partners can appoint three members and two members, respectively, and the return on capital injected by the other limited partner amounting to RMB1,000,000,000 were changed from 4.379% per annum to 8.630% per annum. The approval of the relevant activities requires unanimous consent of members, however, the other partners committed that the two members appointed by them would not vote against the three members appointed by the Group, unless Shenzhen Wanxiang default in settlement of the fixed return and/or return of capital to the other partners in accordance with the repayment schedule. Therefore, the Group obtained 100% beneficial interest in Shenzhen Wanxiang and 100% equity interest in Wanxiangmei, and the amount due to the joint venture partner was included in other loan.

Total consideration transferred

	2018 RMB'000	2017 RMB'000
Cash	130	140,860
Deposits paid in prior years	51,747	102,412
Consideration payables due within one year included in trade and other payables	–	995,380
	51,877	1,238,652

Acquisition-related costs were insignificant and have been recognised as an expense in the current year and included in the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2017 (continued)

Assets acquired and liabilities recognised at the dates of acquisition are as follows:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	2,100	71,573
Interests in an associate	–	453
Interests in a joint venture	–	207
Intangible assets	8,920	1,092,852
Trade and other receivables	60,358	743,106
Tax recoverable	–	24,144
Amounts due from certain subsidiaries of the Company	–	378,971
Amounts due from non-controlling shareholders of the subsidiaries	–	39,212
Bank balances and cash	8,474	1,055,833
Trade and other payables	(53,195)	(1,174,704)
Contract liabilities	(12,380)	–
Amounts due to certain subsidiaries of the Company	(1,760)	(146,901)
Amounts due to non-controlling shareholders of the subsidiaries of the Company	(4,243)	(4,872)
Amount due to a joint venture	–	(14)
Amount due to an associate	–	(372)
Tax liabilities	(756)	(855)
Borrowings	–	(344,600)
Deferred tax liabilities	(2,230)	(271,163)
Other borrowings	–	(1,000,000)
	5,288	462,870

As at the date of acquisitions during the year ended 31 December 2018, the trade and other receivables (including amounts due from certain subsidiaries of the Company and non-controlling shareholders of the subsidiaries of the Company) acquired with a fair value of RMB60,358,000 (2017: RMB1,161,289,000) approximate its gross contractual amount, with no significant contractual cash flows not expected to be collected.

The fair value of intangible assets acquired in business combination as at the date of acquisitions is estimated by an independent valuer through application of income approach. This approach estimates the future economic benefits and costs attributed to the property management contracts and the customer relationship of the acquirees. The economic benefits and related costs are in turn projected over the expected survival period, taking into consideration of the attrition rate, the growth rate and the discount rate.

For the year ended 31 December 2018

45. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of property operation businesses (continued)

For the year ended 31 December 2017 (continued)

Goodwill arising on acquisitions

	2018	2017
	RMB'000	RMB'000
Consideration transferred	51,877	1,238,652
Add: Non-controlling interests	207	24,299
Fair value of the Group's previously held equity interest in Shenzhen Wanxiang classified as interests in joint ventures	–	647,983
Fair value of the Group's previously held equity interest in Wanxiangmei classified as AFS investments	–	30,000
Less: Fair value of net identifiable assets acquired	(5,288)	(462,870)
	46,796	1,478,064

At the acquisition dates during the year ended 31 December 2018, the non-controlling interests arising from the acquisition of non-wholly owned subsidiaries were measured by reference to the proportionate share of the fair value of the acquiree's net identifiable assets/liabilities amounting to RMB207,000 (2017: RMB24,299,000).

The fair value of the Group's previously held interests in Shenzhen Wanxiang and Wanxiangmei was estimated by an independent valuer and the key inputs of the valuation are the expected future cash inflows/outflows of Shenzhen Wanxiang and Wanxiangmei, the growth rates and the discount rates. The difference between the fair value and the carrying amounts of the Group's previously held interests in Shenzhen Wanxiang and Wanxiangmei amounting to RMB459,230,000 was recognised as gain on remeasurement during the year ended 31 December 2017.

Goodwill was arisen on the acquisitions of subsidiaries during the years ended 31 December 2018 and 2017, because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of the business.

As at the date of acquisitions during the year ended 31 December 2018, intangible assets of RMB8,920,000 (2017: RMB1,092,852,000) in relation to the acquisition of subsidiaries under property management services segment have been recognised by the Group.

None of the goodwill arising on the acquisitions are expected to be deductible for tax purposes.

Net cash inflow arising on acquisitions

	2018	2017
	RMB'000	RMB'000
Cash consideration paid	(130)	(140,860)
Less: bank balances and cash acquired	8,474	1,055,833
	8,344	914,973

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiaries

For the year ended 31 December 2018

- (i) During the year ended 31 December 2018, the Group disposed of its 100% equity interests in Jiangxi Yinsheng which is engaged in property development in the PRC, to an independent third party for a consideration of RMB10,000,000.
- (ii) During the year ended 31 December 2018, the Group disposed of its 100% equity interests in Chengdu Yuzhan Xiangyue Industrial Co., Ltd. (成都禦棧香悅實業有限公司) which is engaged in hotel operation, to an independent third party for a consideration of RMB99,079,000.
- (iii) During the year ended 31 December 2018, the Group disposed of its 61% equity interest in Shenzhen Feigao Zhizhuo Industrial Co., Ltd. (深圳市飛高至卓實業有限公司) which is engaged in property development in the PRC, to an independent third party for a consideration of RMB884,500,000.
- (iv) In December 2018, the Group disposed of its entire equity interests in Foshan Colour Life Property Management Co., Ltd. (佛山市彩生活物業管理有限公司) which is engaged in provision of property management services in the PRC, to an independent third party for a consideration of RMB60,000,000.
- (v) In December 2018, the Group disposed of its entire equity interests in Heyuan Colour Life Property Management Co., Ltd. (河源彩生活物業管理有限公司) which is engaged in provision of property management services in the PRC, to an independent third party for a consideration of RMB22,000,000.
- (vi) In December 2018, the Group disposed of its entire equity interests in Changsha Xiangwang Property Management Co., Ltd. (長沙祥旺物業管理有限公司) which is engaged in provision of property management services in the PRC, to an independent third party for a consideration of RMB500,000.

For the year ended 31 December 2017

- (i) During the year ended 31 December 2017, the Group disposed of its 100% equity interests in Shenzhen Huigang Property Management Co., Ltd. (深圳市匯港物業管理有限責任公司) which is engaged in property management services in the PRC, to an independent third party for a consideration of RMB5,500,000.
- (ii) During the year ended 31 December 2017, the Group disposed of its 100% equity interests in Xiehe Golf (Shanghai) Co., Ltd. (協和高爾夫(上海)有限公司) which is engaged in hotel operation, to an independent third party for a consideration of RMB120,000,000.
- (iii) During the year ended 31 December 2017, the Group disposed of its 100% equity interest in Jingchuan Fantasia Culture Tourism Development Co., Ltd. (涇川花樣年文化旅游產業開發有限公司) which is engaged in property development in the PRC, to an independent third party for a consideration of RMB220,000,000.

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES (continued)

(a) Disposal of subsidiaries (continued)

The above transactions are accounted for as disposal of subsidiaries. Details of the net assets disposed of in respect of these transactions are summarised below:

	2018 RMB'000	2017 RMB'000
Analysis of assets and liabilities over which control was lost:		
Property, plant and equipment	74,986	18,673
Equity instrument designated at FVTOCI	1,300	–
Investment properties	–	3,593
Goodwill	6,831	24,087
Prepaid lease payments	–	131,031
Trade and other receivables	59,972	84,997
Properties for sale	438,703	362,998
Tax recoverable	10,897	2,585
Amounts due from certain subsidiaries of the Company	22,386	8,872
Bank balances and cash	18,349	2,851
Trade and other payables	(64,290)	(427,406)
Deposits received on sale of properties	–	(50,764)
Contract liabilities	(224,718)	–
Borrowings	–	(10,000)
Amount due to a non-controlling shareholder of a subsidiary of the Company	–	(445)
Amounts due to certain subsidiaries of the Company	(24,442)	(110,061)
Deferred tax liabilities	–	(546)
Net assets disposed of	319,974	40,465
Gain on disposal of subsidiaries:		
Cash consideration	1,044,079	345,500
Consideration receivables	32,000	–
	1,076,079	345,500
Add: non-controlling interest	70,233	1,193
Less: net assets disposed of	(319,974)	(40,465)
	826,338	306,228
Net cash inflow arising on disposal:		
Cash consideration	1,044,079	345,500
Bank balances and cash disposed of	(18,349)	(2,851)
	1,025,730	342,649

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal of partial interests in subsidiaries without loss of control

For the year ended 31 December 2018

During the year ended 31 December 2018, the Group transferred its 100% beneficially interest in Wanxiangmei Group to Colour Life, a non-wholly owned subsidiary of the Company (the “Transaction”). The consideration of the Transaction included the cash consideration of RMB1,014,174,000 and the issue of 231,500,000 ordinary shares of Colour Life to the Company. The Group’s percentage of equity interest in Colour Life was increased from 46.53% to 55.95% upon completion of the Transaction. The Transaction involved deemed disposal of partial interests in Wanxiangmei Group without loss of control and the acquisition of additional interests in Colour Life. Upon the completion of the Transaction in March 2018, the difference of RMB185,493,000 between the dilution of interests in Wanxiangmei Group held by the Company and the additional share of the net assets of Colour Life after adjusting for the relevant attributable accumulated profits of Colour Life, was debited to the special reserve.

For the year ended 31 December 2017

- (i) During the year ended 31 December 2017, an independent investor injected capital in the form of registered capital and contribution reserve amounting to RMB237,900,000 and RMB762,100,000 respectively to Sichuan Hanfeng Real Estate Co., Ltd. (四川瀚峰置業有限公司) (“Sichuan Hanfeng”), a non-wholly owned subsidiary of the Company, resulting in the dilution of the Group’s equity interest in Sichuan Hanfeng from 91% to 55%. The Group still have control over the relevant activities of Sichuan Hanfeng after the partial disposal. The difference between the capital injected by the independent investor and the attributable equity interest in Sichuan Hanfeng disposed amounted to RMB244,864,000 was credited to special reserve. Sichuan Hanfeng is engaged in property development in the PRC. As at 31 December 2017, the capital was fully injected to Sichuan Hanfeng.
- (ii) During the year end 31 December 2017, an independent investor injected capital in the form of registered capital and contribution reserve amounting to RMB376,667,000 and RMB123,333,000 respectively to Tianjin Huaqianli Real Estate Co., Ltd. (天津市花千里房地產開發有限公司) (“Tianjin Huaqianli”), a wholly owned subsidiary of the Company, resulting in the dilution of the Group’s equity interest in Tianjin Huaqianli from 100% to 60%. The Group still have control over the relevant activities of Tianjin Huaqianli after the partial disposal. The difference between the capital injected by the independent investor and the attributable equity interest in Tianjin Huaqianli disposed amounted to RMB26,009,000 was debited in special reserve. Tianjin Huaqianli is engaged in property development in the PRC. As at 31 December 2017, the capital was fully injected to Tianjin Huaqianli.
- (iii) During the year ended 31 December 2017, the Group disposed of its 20% equity interest in Suzhou Yiya Property Management Co., Ltd. (蘇州易亞物業管理有限公司) (“Suzhou Yiya”), to an independent third party, for a cash consideration of RMB2,610,000. The Group retained 50% equity interest in Suzhou Yiya and still have control over the relevant activities of Suzhou Yiya after the partial disposal. The difference of RMB1,203,000 between the consideration received and the proportionate share of the net assets of Suzhou Yiya by the non-controlling shareholder was credited to special reserve. Suzhou Yiya is engaged in provision of property operation services in the PRC. As at 31 December 2017, the consideration was fully settled.

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal of partial interests in subsidiaries without loss of control (continued)

For the year ended 31 December 2017 (continued)

- (iv) During the year ended 31 December 2017, an independent investor injected capital in the form of registered capital and contribution reserve amounting to RMB107,143,000 and RMB692,857,000 respectively to Guilin Wanhao Property Co., Ltd. (桂林萬豪房地產開發有限公司) (“Guilin Wanhao”), a wholly-owned subsidiary of the Company, resulting in the dilution of the Group’s equity interest in Guilin Wanhao from 100% to 70%. The Group still have control over the relevant activities of Guilin Wanhao after the partial disposal. The difference between the capital injected by the independent investor and the attributable equity interest in Guilin Wanhao disposed amounted RMB415,906,000 was credited to special reserve. Guilin Wanhao is engaged in property development in the PRC. As at 31 December 2017, the capital of RMB400,000,000 was injected to Guilin Wanhao. The outstanding balance of RMB400,000,000 was injected to Guilin Wanhao in 2018.
- (v) During the year ended 31 December 2017, an independent investor injected capital in the form of registered capital and contribution reserve amounting to RMB576,416,000 and RMB423,584,000 respectively to Fantasia (Chengdu) Ecological Tourism Co., Ltd. (花樣年(成都)生態旅遊開發有限公司) (“Chengdu Tourism”), a wholly-owned subsidiary of the Company, resulting in the dilution of the Group’s equity interest in Chengdu Tourism from 100% to 70%. The Group still have control over the relevant activities of Chengdu Tourism after the partial disposal. The difference between the capital injected by the independent investor and the attributable equity interest in Chengdu Tourism disposed amounted to RMB144,777,000 was credited to special reserve. Chengdu Tourism is engaged in property development in the PRC. As at 31 December 2017, the capital of RMB500,000,000 was injected to Chengdu Tourism. The outstanding balance of RMB500,000,000 was injected to Chengdu Tourism in 2018.

	RMB’000
Capital injected by non-controlling shareholders	2,400,000
Capital receivables due from non-controlling shareholders	900,000
Consideration received from the non-controlling shareholders	2,610
Less: Attributable equity interests in the aforesaid subsidiaries to non-controlling shareholders	(2,521,869)
Amounts recognised in special reserve	780,741

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of partial interests in subsidiaries resulting in loss of control

For the year ended 31 December 2018

In January 2018, the Group and an independent investor (“Investor”) have agreed, in written, that the Investor will acquire 64.30% equity interest in Beijing Yaxinke on the condition that the Group has obtained 64.30% shareholding in Beijing Yaxinke. The agreement for the acquisition of Beijing Yaxinke was entered into by the Group and the Investor in August 2018. The total payment settled by the Investor is RMB2,198,000,000 which included (1) RMB500,000,000 returned to the Group for the capital injection to Beijing Yaxinke which represents 40.36% equity interest in Beijing Yaxinke; (2) RMB460,020,000 returned to the Group for the acquisition of the 23.94% equity interest in Beijing Yaxinke and (3) RMB1,237,980,000 paid to the Group for the acquisition of shareholder’s loans owed by Beijing Yaxinke to the Group. Upon completion of the acquisition in August 2018, the Group’s shareholding in Beijing Yaxinke was diluted from 59.85% to 35.69% and the Investor holds 64.30% equity interests in Beijing Yaxinke in aggregate. In accordance with the amended Article and Association, the board of directors of Beijing Yaxinke, the governing body which directs the relevant activities that significantly affect the return of Beijing Yaxinke, consists of seven directors which the Group and the Investor can appoint five directors and two directors, respectively, and the approval of relevant activities of Beijing Yaxinke require unanimous consent of all directors, therefore, Beijing Yaxinke is jointly controlled by the Group and the Investor and classified as interest in a joint venture. Beijing Yaxinke hold a parcels of land located in Beijing and a manufacturing plant located in Tianjin in the PRC.

For the year ended 31 December 2017

- (i) During the year ended 31 December 2017, the Group disposed of its 80% equity interest in Xuzhou Binhu Garden Property Management Co., Ltd. (徐州市濱湖花園物業管理有限公司) (“Xuzhou Binhu”) to an independent third party for a cash consideration of RMB3,680,000, resulting in loss of control upon completion of the transaction. The remaining 10% equity interest in Xuzhou Binhu is classified as interests in associates. Xuzhou Binhu is engaged in provision of property operation services in the PRC.
- (ii) During the year ended 31 December 2017, the Group disposed of its 55.1% of equity interest in Xi’an Rongxin Property Management Co., Ltd. (西安榮鑫物業管理有限公司) (“Xi’an Rongxin”) to Ms. Cui Ronghua (崔榮華), a non-controlling shareholder of a subsidiary and an independent third party, for a cash consideration of RMB10,389,000 and RMB10,000,000 respectively, resulting in loss of control upon completion of the transaction. The remaining 4.9% equity interest in Xi’an Rongxin is classified as AFS investments. Xi’an Rongxin is engaged in provision of property operation services in the PRC.
- (iii) During the year ended 31 December 2017, an independent third party contributed RMB10,000,000 to Shenzhen Yixuan Technology Co., Ltd. (深圳懿軒科技有限公司) (“Shenzhen Yixuan”). After the capital injection, the equity interests, profit sharing and voting rights held by the Group was diluted from 51% to 46% and was classified as interests in joint ventures. Shenzhen Yixuan is engaged in provision of equipment leasing service in the PRC.
- (iv) During the year ended 31 December 2017, the Group disposed of its 80% of equity interest in Shenzhen Yongli Hongying Investment Co., Ltd. (深圳永利鴻盈投資有限公司) (“Shenzhen Yongli”) to an independent third party, for a cash consideration of RMB600,000,000, resulting in loss of control upon completion of the transaction. The remaining 1% equity interest in Shenzhen Yongli was classified as AFS investments of the Group. Shenzhen Yongli is engaged in property development in the PRC.

These transactions were accounted for as disposal of partial interests in subsidiaries resulting in loss of control.

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of partial interests in subsidiaries resulting in loss of control (continued)

Assets and liabilities derecognised at dates of loss of control of the disposed subsidiaries were as follows:

	2018 RMB'000	2017 RMB'000
Assets and liabilities disposed at the date of loss of control of the disposed subsidiaries are as follows:		
Premium on prepaid lease payments	1,195,588	–
Prepaid lease payments	41,044	–
Property, plant and equipment	317,693	62,688
Goodwill	–	16,911
Properties for sale	–	1,308,365
Trade and other receivables	797,757	124,314
Deferred tax assets	–	5,215
Amount due from an associate	–	117,678
Amounts due to certain subsidiaries of the Company	–	156,868
Bank balances and cash	500,000	14,016
Trade and other payables	(389,189)	(286,239)
Deposits received for sale of properties	–	(36,108)
Amounts due to a joint venture	–	(694)
Amounts due to certain subsidiaries of the Company	(1,285,788)	(771,931)
Amounts due to non-controlling shareholders	–	(7,474)
Tax liabilities	–	(35,779)
Deferred tax liabilities	(298,897)	–
	878,208	667,830
Gain on disposal of subsidiaries:		
Cash received during the year	1,237,980	615,069
Cash capital injection received	500,000	10,000
Consideration receivables due within one year	–	9,000
Total consideration and capital injection	1,737,980	634,069
Non-controlling interest	151,850	1,106
Fair value of retained equity interests in:		
– interests in joint ventures (note)		
Beijing Yaxinke	721,652	–
Shenzhen Yixuan	–	44,130
– interests in associates		
Xuzhou Binhu	–	460
– AFS investments		
Xi'an Rongxin	–	1,813
Shenzhen Yongli	–	6,309
Less: Net assets disposed of	(878,208)	(667,830)
Assignment of shareholder's loan owed by Beijing Yaxinke to the Investor	(1,285,788)	–
	447,486	20,057

For the year ended 31 December 2018

46. DISPOSAL OF SUBSIDIARIES (continued)

(c) Disposal of partial interests in subsidiaries resulting in loss of control (continued)

	2018 RMB'000	2017 RMB'000
Net cash inflow arising on disposal:		
Cash consideration	1,737,980	625,069
Bank balances and cash disposed of	(500,000)	(14,016)
	1,237,980	611,053

Note: The fair value of retained equity interests in Beijing Yaxinke and Shenzhen Yixuan is estimated by an independent valuer through application of income approach and the key inputs of the valuation are the expected future cash inflows/outflows, the growth rates and the discount rates.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Amounts due to joint ventures RMB'000 (note 38)	Amounts due to associates RMB'000 (note 38)	Amounts due to non- controlling shareholders of the subsidiaries of the Company RMB'000 (note 38)	Borrowings RMB'000 (note 39)	Obligation under finance leases RMB'000 (note 40)	Senior notes and bonds RMB'000 (note 41)	Assets- backed securities issued RMB'000 (note 42)	Dividend payables RMB'000	Total RMB'000
At 1 January 2018	10,000	13,513	-	9,863,645	310,992	19,804,942	227,737	-	30,230,829
Financing cash flows	(9,632)	6,458	331,607	5,424,135	(68,178)	3,248,908	26,986	(329,217)	8,631,067
Interest paid	-	-	-	(1,221,870)	-	(1,630,264)	(16,387)	-	(2,868,521)
Finance cost incurred during the year (note 9)	-	-	-	1,221,870	15,631	1,942,299	22,083	-	3,201,883
Inception of finance leases	-	-	-	-	43,678	-	-	-	43,678
Acquisition of subsidiaries (note 45)	-	-	4,243	3,734,730	-	-	-	-	3,738,973
Loss on repurchase, early redemption and modification of senior notes and bonds	-	-	-	-	-	49,325	-	-	49,325
Foreign exchange	-	-	-	133,044	3,921	792,533	-	-	929,498
Dividend declared (note 13)	-	-	-	-	-	-	-	329,217	329,217
At 31 December 2018	368	19,971	335,850	19,155,554	306,044	24,207,743	260,419	-	44,285,949
At 1 January 2017	294,157	1,061,338	-	3,367,466	112,148	18,379,625	275,084	-	23,489,818
Financing cash flows	(283,477)	(1,048,197)	-	3,815,030	(27,780)	1,824,659	(51,250)	(250,049)	3,978,936
Interest paid	-	-	-	(623,989)	-	(1,495,033)	(15,429)	-	(2,134,451)
Finance cost incurred during the year (note 9)	-	-	-	623,989	4,815	1,649,157	19,332	-	2,297,293
Inception of finance leases	-	-	-	-	221,809	-	-	-	221,809
Acquisition of subsidiaries (note 45)	14	372	-	2,781,630	-	-	-	-	2,782,016
Disposal of subsidiaries (note 46)	(694)	-	-	(10,000)	-	-	-	-	(10,694)
Loss on early redemption of senior notes	-	-	-	-	-	116,933	-	-	116,933
Foreign exchange	-	-	-	(90,481)	-	(670,399)	-	-	(760,880)
Dividend declared (note 13)	-	-	-	-	-	-	-	250,049	250,049
At 31 December 2017	10,000	13,513	-	9,863,645	310,992	19,804,942	227,737	-	30,230,829

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48. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes amounts due to joint ventures, associates and non-controlling shareholders of the subsidiaries of the Company as disclosed in note 38, borrowings as disclosed in note 39, obligations under finance leases as disclosed in note 40, senior notes and bonds as disclosed in note 41, asset-backed securities issued as disclosed in note 42, net of the cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves. In managing the Group's capital structure, the management will also monitor the utilisation of borrowings, senior notes and bonds and asset-backed securities issued to ensure compliance with financial covenants.

The directors of the Company review the capital structure periodically. As a part of this review, the corporate finance department reviews the planned construction projects proposed by engineering department and prepares the annual budget taking into account of the provision of funding and considers the cost of capital and the risks associated with each class of capital, the Group does not have any target gearing ratio.

The directors of the Company then assess the annual budget and consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

49. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	32,336,900	–
Loans and receivables (including cash and cash equivalents)	–	21,759,577
Financial assets at FVTPL	2,127,196	234,460
Equity instruments designated at FVTOCI	51,551	–
AFS investments	–	117,663
Financial liabilities		
Financial liabilities measured at amortised cost	50,872,196	37,128,887

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, joint ventures and associates, financial assets at FVTPL, restricted/pledged bank deposits, bank balances and cash, AFS investments/equity instruments designated at FVTOCI, trade and other payables, amounts due to non-controlling shareholders of subsidiaries of the Company, joint ventures and associates, borrowings, senior notes and bonds and asset-backed securities issued. Details of these financial instruments are disclosed in respective notes.

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49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The Group mainly has bank balances, borrowings, obligations under finance leases and senior notes which are denominated in foreign currencies of the relevant group entities, hence is exposed to exchange rate fluctuations.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective reporting periods are as follow:

	2018 RMB'000	2017 RMB'000
Assets		
USD	660,827	3,107,330
SGD	157,689	670,885
JPY	23,391	33,170
HKD	1,170,454	22,387
Liabilities		
USD	17,653,480	11,890,881
SGD	32,051	210,757
HKD	–	21,633

The Group currently does not enter into any derivative contracts to minimise the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

Sensitivity analysis

The Group mainly exposes to the effects of fluctuation in USD, HKD, SGD and JPY against RMB.

The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in the RMB against the relevant foreign currencies. 10% (2017: 10%) is the sensitivity rate used in the current year when reporting foreign currency risk internally to management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% (2017: 10%) change in foreign currency rates. The sensitivity analysis includes bank balances, borrowings, obligations under finance leases and senior notes. A positive (negative) number indicates an increase (a decrease) in profit for the year where the RMB strengthens 10% (2017: 10%) against the relevant currencies. For a 10% (2017: 10%) weakening of the RMB against the relevant currencies, there would be an equal and opposite impact on the profit.

For the year ended 31 December 2018

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Currency risk* (continued)

Foreign currency sensitivity analysis

	2018 RMB'000	2017 RMB'000
USD		
Increase in profit for the year	1,699,265	878,355
HKD		
Decrease in profit for the year	(117,045)	(75)
SGD		
Decrease in profit for the year	(12,564)	(46,013)
JPY		
Decrease in profit for the year	(2,339)	(3,317)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and variable-rate borrowings.

The Group is also exposed to fair value interest rate risk which relates primarily to its fixed-rate loan receivables included in trade and other receivables, borrowings, obligations under finance leases, senior notes and bonds and asset-backed securities issued.

The Group currently does not use any derivative contracts to hedge its loans to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the benchmark rates.

For the year ended 31 December 2018

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) *Interest rate risk* (continued)

Sensitivity analysis

Bank balances and restricted/pledged bank deposits

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank balances and restricted/pledged bank deposits at the end of the reporting period. A 25 basis points (2017: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2017: 25 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would have increased/decreased by RMB53,513,000 (2017: RMB30,828,000) assuming the interests on such borrowings would not be capitalised.

Variable-rate borrowings

The sensitivity analysis below has been determined based on the exposure to interest rates for the variable-rate borrowings at the end of the reporting period. A 50 basis points (2017: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would have decreased/increased by RMB35,597,000 (2017: RMB13,604,000), assuming the interest on such borrowings would not be capitalised.

Credit risk and impairment assessment

As at 31 December 2018, other than those financial assets whose carrying best present the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 54.

Trade receivables, contract assets and payments on behalf of residents included in other receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality then applies internal credit rating and defines credit limits by customers. The Group reviews the customer's credit quality on a timely basis and carried out monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on contract assets and payments on behalf of residents individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For the year ended 31 December 2018

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables, contract assets and payments on behalf of residents included in other receivables (continued)

Except for the contract assets in relation to the construction of properties for the government which is considered to be at low credit risk, the Group had no concentration of credit risk in respect of the trade receivables, contract assets and payments on behalf of residents with exposure spread over a number of counter parties.

Other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures, restricted/pledged bank deposits and bank balances

The credit risk of other receivables, amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures are managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. Further, the Group closely monitors the financial performance of the subsidiaries of the Company with these relevant non-controlling shareholders, associates and joint ventures. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on the outstanding balances individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC, Singapore and Japan.

Financial guarantees

For properties under development which are subject to pre-sales agreements, the Group generally typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Group is able to forfeit the customer's purchase deposit and sell the property to recover any amounts paid by the Group to the bank. Therefore, the management considers it would likely recover any loss incurred arising from the guarantee by the Group. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the facilities are secured by the properties and the market prices of the properties are higher than the guaranteed amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For the year ended 31 December 2018

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Financial guarantees (continued)

The Group's internal credit risk grading assessment comprises the following categories:

2018	External credit rating	Internal credit rating	Notes	12 m or life-time ECL	Gross carrying amount RMB'000
Trade receivables					
– property development and lease receivables	N/A	(i)	33	Life-time ECL (individual assessment)	880,046
– property operation services and sales of fuel pumps	N/A	(i)	33	Life-time ECL (provision matrix) Life-time ECL (credit-impaired and individual assessment)	773,991 365,965
					2,020,002
Contract assets					
– construction of properties	N/A	Low risk	31	Life-time ECL (individual assessment)	380,447
– others	N/A	N/A	31	Life-time ECL (provision matrix)	81,941
					462,388
Payments on behalf of residents (included in other receivables)	N/A N/A	(ii) (ii)	33 33	Life-time ECL (provision matrix) Life-time ECL (credit-impaired and individual assessment)	648,373 262,593
					910,966
Other receivables (excluding payments on behalf of residents), amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures	N/A	(iii)	33/25	12 m ECL	1,021,266
Restricted/pledged bank deposits and bank balances	AAA	Low risk	35	12 m ECL	28,540,319
Financial guarantee contracts	N/A	Low risk	54	12 m ECL	9,789,678

Notes:

(i) Trade receivables

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables arising from property operation services and sale of fuel pumps, which are assessed collectively based on provision matrix as at 31 December 2018.

For trade receivables arising from property development and lease receivables, the amount of the loss allowance at 1 January 2018 and 31 December 2018 was considered as insignificant to the consolidated financial statements of the Group.

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49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Financial guarantees (continued)

Notes: (continued)

(i) Trade receivables (continued)

For trade receivables arising from property operation services and sales of fuel pumps in which impairment loss allowance was made:

	Category	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
0 – 30 days	Not credit-impaired	0.5%	462,553	2,313
31 – 90 days	Not credit-impaired	2.0%	311,438	6,229
91 – 180 days	Credit-impaired		212,352	12,741
181 – 365 days	Credit-impaired		83,435	10,012
Over 1 year	Credit-impaired		70,178	31,580
			1,139,956	62,875

The estimated loss rate are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking macroeconomic data that is available without undue cost or effort.

(ii) Payments on behalf of residents

As part of the Group's credit risk management, the Group applies internal credit rating for its customers on payments on behalf of residents on a timely basis. The Group uses four categories for those receivables which reflect their credit risk.

Category	Group definition of category
Type I	Communities for which the Group have terminated or plan to terminate or non-renew of the related property management contracts because their financial performance does not meet the Group's expectations, the amounts are credit-impaired and the Group has low realistic prospect of recovery.
Type II	Communities for which the Group provides for the pre-delivery property management services for the property developers before the properties are delivered to owners, the property developers have a lower risk of default and a stronger capability to meet contractual cash flows than individual residents.
Type III	Communities where management offices' property management fee receivables due from residents exceed payments on behalf of residents of the relevant communities. The residents of the communities are diversified and have a low risk of default.
Type IV	Communities where payments on behalf of residents exceed management offices' property management fees receivables due from residents, which indicates the payments on behalf of residents are credit-impaired.

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49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Financial guarantees (continued)

Notes: (continued)

(ii) Payments on behalf of residents (continued)

The following table provides information about the exposure to credit risk and ECL for payments on behalf of residents which are assessed collectively based on provision matrix as at 31 December 2018.

	Category	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Type I	Credit-impaired		80,116	76,110
Type II	Not credit-impaired	5.0%	95,554	4,778
Type III	Not credit-impaired	1.0%	552,819	5,528
Type IV	Credit-impaired		182,477	36,495
			910,966	122,911

The estimated loss rate are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking macroeconomic data that is available without undue cost or effort.

(iii) Other receivables (excluding payments on behalf of residents), amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures

For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. The balances of other receivables (excluding payments on behalf of residents), amounts due from non-controlling shareholders of the subsidiaries of the Company, associates and joint ventures are all not past due. In the opinion of the directors of the Company, the risk of default by these counterparties is not significant and thus the Group assessed that the ECL on these balances are insignificant.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on amounts due to joint ventures, associates and non-controlling shareholders of subsidiaries of the Company, borrowings, senior notes and bonds and asset-backed securities issued as significant sources of liquidity.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and obligations under finance lease. The table has been drawn up based on the undiscounted cash flows of financial liabilities and obligations under finance leases based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities and obligations under finance lease are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

For the year ended 31 December 2018

49. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity table

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018								
Trade and other payables	-	3,171,826	1,711,036	1,484,890	524,539	-	6,892,291	6,892,291
Amounts due to joint ventures	-	368	-	-	-	-	368	368
Amounts due to a non-controlling shareholders	-	335,850	-	-	-	-	335,850	335,850
Amounts due to associates	-	19,971	-	-	-	-	19,971	19,971
Borrowings								
– fixed rate	9.08	597,416	1,180,609	4,967,116	4,172,796	248,717	11,166,654	9,662,982
– variable rate	7.64	223,140	566,782	1,880,608	6,547,101	1,670,425	10,888,056	9,492,572
Obligations under finance leases	4.88	6,829	13,658	61,460	206,521	56,361	344,829	306,044
Senior notes and bonds	9.43	490,473	2,924,329	6,502,467	21,872,910	-	31,790,179	24,207,743
Asset-backed securities issued	6.39	-	36,747	71,550	183,046	-	291,343	260,419
Financial guarantee contracts	-	9,789,678	-	-	-	-	9,789,678	-
		14,635,551	6,433,161	14,968,091	33,506,913	1,975,503	71,519,219	51,178,240
At 31 December 2017								
Trade and other payables	-	2,062,924	1,570,377	2,336,406	1,239,343	-	7,209,050	7,209,050
Amounts due to joint ventures	-	10,000	-	-	-	-	10,000	10,000
Amounts due to associates	-	13,513	-	-	-	-	13,513	13,513
Borrowings								
– fixed rate	8.35	188,498	374,675	1,730,629	4,881,087	64,191	7,239,080	6,235,899
– variable rate	5.20	115,667	230,963	1,027,104	2,786,231	91,088	4,251,053	3,627,746
Obligations under finance leases	4.45	5,393	10,786	48,535	208,486	86,162	359,362	310,992
Senior notes and bonds	9.08	152,214	304,425	5,683,733	26,179,137	-	32,319,509	19,804,942
Asset-backed securities issued	7.23	-	17,224	51,892	196,943	-	266,059	227,737
Financial guarantee contracts	-	7,296,670	-	-	-	-	7,296,670	-
		9,844,879	2,508,450	10,878,299	35,491,227	241,441	58,964,296	37,439,879

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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49. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Fair values of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis. The following table gives information about how the fair values are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key input
	2018 RMB'000	2017 RMB'000		
Financial assets at FVTPL				
– Money market fund investments	89,196	234,460	Level 3	Market approach – Expected performance of government debentures, treasury notes, corporate bonds and short-term fixed deposits.
– Debt Instrument	2,038,000	–	Level 3	Probability weighted expected return model – Fair value is estimated based on expected value, discount rate and probability of outcome of judicial auction.
Equity instruments designated at FVTOCI	51,551	–	Level 3	Discounted cash flow – Future cash flows are estimated based on expected return, and the contracted investment costs, discounted at a rate that reflects the internal rate of return.

For the year ended 31 December 2018

49. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

Fair value of the Group's other financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Fair value hierarchy	2018 Carrying amount RMB'000	2018 Fair value RMB'000	2017 Carrying amount RMB'000	2017 Fair value RMB'000
Senior notes	Level 1	18,226,807	15,520,865	13,087,522	13,327,690
Listed corporate bonds	Level 1	4,086,177	4,053,355	3,117,014	3,094,535
Unlisted corporate bonds	Level 3	1,894,759	1,916,019	3,600,406	3,640,712
Asset-backed securities issued	Level 3	260,419	268,483	227,737	235,251

The management of the Group estimates the fair value of other financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

50. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018 RMB'000	2017 RMB'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	21,317	50,675

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	22,431	43,221
In the second to the fifth year inclusive	79,315	169,698
After five years	69,215	375,614
	170,961	588,533

Operating lease payments represented rentals payable by the Group for certain offices premises and commercial properties. Leases are negotiated and rentals are fixed for terms of one to fifteen years.

For the year ended 31 December 2018

50. OPERATING LEASE COMMITMENTS (continued)

The Group as lessee (continued)

During the year ended 31 December 2018, the Group entered into a cooperative agreement with three independent third parties to establish a joint venture and engage in sub-leasing of commercial buildings. Pursuant to the cooperative agreement, upon the formation of the joint venture, all the Group's interests in the lease agreements in relation to the lease of commercial buildings located in Shanghai and the sub-leasing agreements with tenants were transferred to the joint venture.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	192,107	234,192
In the second to the fifth year inclusive	490,377	650,187
After the fifth year	152,703	220,493
	835,187	1,104,872

Property rental income represented rentals receivable by the Group. Leases are negotiated for an average term of one to twenty years with fixed rentals.

51. CAPITAL AND OTHER COMMITMENTS

	2018 RMB'000	2017 RMB'000
Construction commitments in respect of properties for sale contracted for but not provided in the consolidated financial statements	9,117,151	2,417,987
Construction commitments in respect of investment properties contracted for but not provided in the consolidated financial statements	1,804,001	254,390
Consideration committed in respect of acquisition of subsidiaries contracted for but not provided in the consolidated financial statements	61,106	870,720
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	29,203	23,066

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52. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share option scheme of the Company

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 27 October 2009 for the primary purposes of providing incentives to certain directors and employees of the Company and its subsidiaries ("Eligible Employees"). Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HKD1 per option to the Eligible Employees to subscribe for shares in the Company ("Shares").

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme ("Options") and any other share option schemes of the Company shall not, in the absence of shareholders' approval, in aggregate exceed 10% of the shares of the Company in issue at any point in time. Options granted to a substantial shareholder or an independent non-executive director in excess of 0.1% of the Company's share capital or with a value in excess of HKD5 million must be approved in advance by the Company's shareholders.

The exercisable period of an option is determined by the directors of the Company at their discretion. The expiry date of the Options may be determined by the Board of Directors of the Company which shall not be later than the expiry day of the Scheme.

The exercise price is determined by the directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the five trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

During the year ended 31 December 2018, 151,000 share options (2017: nil) granted by the Company were lapsed.

As at 31 December 2018, the total number of shares to be issued upon the exercise of all options granted under the Scheme is 84,028,000 (2017: 85,101,000) of HKD0.1 each, representing approximately 1.5% (2017: 1.5%) of the issued share capital of the Company.

For the year ended 31 December 2018

52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share option scheme of the Company (continued)

Details of the share options granted under the Scheme is as follows:

Category of grantees	Date of grant	Exercise price per share HKD	Vesting period	Exercisable period
Directors	29 August 2011	0.836	29/8/2011 – 28/8/2012	29/8/2012 – 28/8/2021
			29/8/2011 – 28/8/2013	29/8/2013 – 28/8/2021
			29/8/2011 – 28/8/2014	29/8/2014 – 28/8/2021
	16 October 2012	0.8	16/10/2012 – 15/10/2013	16/10/2013 – 15/10/2022
			16/10/2012 – 15/10/2014	16/10/2014 – 15/10/2022
			16/10/2012 – 15/10/2015	16/10/2015 – 15/10/2022
Employees	29 August 2011	0.836	29/8/2011 – 28/8/2012	29/8/2012 – 28/8/2021
			29/8/2011 – 28/8/2013	29/8/2013 – 28/8/2021
			29/8/2011 – 28/8/2014	29/8/2014 – 28/8/2021
	16 October 2012	0.8	16/10/2012 – 15/10/2013	16/10/2013 – 15/10/2022
			16/10/2012 – 15/10/2014	16/10/2014 – 15/10/2022
			16/10/2012 – 15/10/2015	16/10/2015 – 15/10/2022

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share option scheme of the Company (continued)

The following table discloses movements of the Company's share options held by employees and directors during the years ended 31 December 2018 and 2017:

Category of grantees	Date of grant	Vesting period	Outstanding	Granted	Lapsed	Exercised	Outstanding	Granted	Lapsed	Exercised	Outstanding
			at 1 January 2017	during the year	during the year	during the year	at 31 December 2017	during the year	during the year	during the year	at 31 December 2018
Directors	29 August 2011	29/8/2011 – 28/8/2012	1,158,000	-	-	-	1,158,000	-	-	-	1,158,000
		29/8/2011 – 28/8/2013	2,617,000	-	-	-	2,617,000	-	-	-	2,617,000
		29/8/2011 – 28/8/2014	7,805,000	-	-	-	7,805,000	-	-	-	7,805,000
	16 October 2012	16/10/2012 – 15/10/2013	1,435,000	-	-	-	1,435,000	-	-	-	1,435,000
		16/10/2012 – 15/10/2014	3,067,000	-	-	-	3,067,000	-	-	-	3,067,000
		16/10/2012 – 15/10/2015	9,848,000	-	-	-	9,848,000	-	-	-	9,848,000
			25,930,000	-	-	-	25,930,000	-	-	-	25,930,000
Employees	29 August 2011	29/8/2011 – 28/8/2012	2,861,000	-	-	(21,000)	2,840,000	-	(15,000)	(85,000)	2,740,000
		29/8/2011 – 28/8/2013	5,421,000	-	-	(43,000)	5,378,000	-	(30,000)	(170,000)	5,178,000
		29/8/2011 – 28/8/2014	20,330,000	-	-	(150,000)	20,180,000	-	(106,000)	(593,000)	19,481,000
	16 October 2012	16/10/2012 – 15/10/2013	3,078,000	-	-	(1,000)	3,077,000	-	-	(7,000)	3,070,000
		16/10/2012 – 15/10/2014	5,960,000	-	-	(2,000)	5,958,000	-	-	(15,000)	5,943,000
		16/10/2012 – 15/10/2015	21,746,000	-	-	(8,000)	21,738,000	-	-	(52,000)	21,686,000
			59,396,000	-	-	(225,000)	59,171,000	-	(151,000)	(922,000)	58,098,000
Total			85,326,000	-	-	(225,000)	85,101,000	-	(151,000)	(922,000)	84,028,000
Exercisable at the end of the year							85,101,000				84,028,000
Weighted average exercise price (HKD)							0.82				0.82
Weighted average exercise price at the date of exercise (HKD)							0.83				0.83

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share option scheme of the Company (continued)

The closing price of the shares on the date of grant was HKD0.82 at 29 August 2011 and HKD0.77 at 16 October 2012. Binomial Option Pricing Model had been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	16 October 2012	29 August 2011
Market price	HKD0.77	HKD0.820
Exercise price	HKD0.80	HKD0.836
Expected volatility	44.87%	40.43%
Risk-free rate	0.66%	1.74%
Expected dividend yield	5.12%	4.878%

The estimated fair value of the options at the date of grant was RMB16,174,000 on 29 August 2011 and RMB13,682,000 on 16 October 2012, respectively. The Group did not recognise any expense for the years ended 31 December 2018 and 2017 in relation to share options granted by the Company.

(b) Share option scheme of Colour Life

Colour Life, a non-wholly owned subsidiary of the Company, operates a share option scheme (the "Colour Life's Scheme"). The Colour Life's Scheme was adopted pursuant to a resolution passed on 11 June 2014 for the primary purposes of providing incentives to certain directors and employees of the Colour Life and its subsidiaries and non-controlling shareholders of certain subsidiaries of Colour Life ("Eligible Persons"). Under the Colour Life's Scheme, the Board of Directors of Colour Life is authorised to grant options at a consideration of HKD1 per option respectively to the Eligible Persons to subscribe for shares of Colour Life ("Colour Life's Shares").

The maximum number of Colour Life's Shares which may be issued upon exercise of all options to be granted under the Colour Life's Scheme ("Colour Life's Options") and any other share option schemes of Colour Life shall not, in the absence of shareholders' approval, in aggregate exceed 10% of the shares of Colour Life in issue at any point in time. Colour Life's Options granted to a substantial shareholder or an independent non-executive director in excess of 0.1% of Colour Life's share capital or with a value in excess of HKD5 million must be approved in advance by Colour Life's shareholders.

The exercisable period of an option is determined by the directors of Colour Life at their discretion. The expiry date of Colour Life's Options may be determined by the Board of Directors of Colour Life which shall not be later than the expiry day of Colour Life's Scheme.

The exercise price is determined by the directors of Colour Life, and will not be less than the greater of: (i) the closing price of Colour Life on the offer date; (ii) the average of the closing price of Colour Life's shares for the five trading days immediately preceding the offer of Colour Life's options and (iii) the nominal value per share of Colour Life.

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share option scheme of Colour Life (continued)

As at 31 December 2018, the total number of Colour Life's shares to be issued upon the exercise of all options granted under the Colour Life's Scheme is 85,730,000 (2017: 80,678,000) of HKD0.1 each, representing approximately 6.5% (2017: 8.1%) of the issued share capital of Colour Life.

Details of the share options granted under Colour Life's Scheme is as follows:

Category of grantees	Date of grant	Exercise price per share HKD	Vesting period	Exercisable period
Directors	29 September 2014	6.66	N/A	29/9/2014 – 28/9/2024
			29/9/2014 – 28/9/2015	29/9/2015 – 28/9/2024
			29/9/2014 – 28/9/2016	29/9/2016 – 28/9/2024
			29/9/2014 – 28/9/2017	29/9/2017 – 28/9/2024
	30 April 2015	11.00	30/4/2015 – 29/4/2016	30/4/2016 – 29/4/2025
			30/4/2015 – 29/4/2017	30/4/2017 – 29/4/2025
			30/4/2015 – 29/4/2018	30/4/2018 – 29/4/2025
	18 March 2016	5.76	18/3/2016 – 17/3/2017	18/3/2017 – 17/3/2026
			18/3/2016 – 17/3/2018	18/3/2018 – 17/3/2026
			18/3/2016 – 17/3/2019	18/3/2019 – 17/3/2026
	27 November 2018	4.11	27/11/2018 – 26/11/2019	27/11/2019 – 26/11/2029
			27/11/2018 – 26/11/2020	27/11/2020 – 26/11/2029
27/11/2018 – 26/11/2021			27/11/2021 – 26/11/2029	
Employees and non-controlling shareholders of certain subsidiaries	29 September 2014	6.66	N/A	29/9/2014 – 28/9/2024
			29/9/2014 – 28/9/2015	29/9/2015 – 28/9/2024
			29/9/2014 – 28/9/2016	29/9/2016 – 28/9/2024
			29/9/2014 – 28/9/2017	29/9/2017 – 28/9/2024
	30 April 2015	11.00	30/4/2015 – 29/4/2016	30/4/2016 – 29/4/2025
			30/4/2015 – 29/4/2017	30/4/2017 – 29/4/2025
			30/4/2015 – 29/4/2018	30/4/2018 – 29/4/2025
	18 March 2016	5.76	18/3/2016 – 17/3/2017	18/3/2017 – 17/3/2026
			18/3/2016 – 17/3/2018	18/3/2018 – 17/3/2026
			18/3/2016 – 17/3/2019	18/3/2019 – 17/3/2026
	27 November 2018	4.11	27/11/2018 – 26/11/2019	27/11/2019 – 26/11/2029
			27/11/2018 – 26/11/2020	27/11/2020 – 26/11/2029
27/11/2018 – 26/11/2021			27/11/2021 – 26/11/2029	

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share option scheme of Colour Life (continued)

The following table of the Company discloses movements of Colour Life's share options held by Eligible Persons during the year ended 31 December 2018 and 2017:

Category of grantees	Date of grant	Vesting period	Outstanding				Outstanding				
			at 1 January 2017	Granted during the year	Lapsed during the year	Exercised during the year	at 31 December 2017	Granted during the year	Lapsed during the year	Exercised during the year	at 31 December 2018
Directors	29 September 2014	N/A	520,000	-	-	-	520,000	-	-	-	520,000
		29/9/2014 – 28/9/2015	1,064,000	-	-	-	1,064,000	-	-	(50,000)	1,014,000
		29/9/2014 – 28/9/2016	1,064,000	-	-	-	1,064,000	-	-	(50,000)	1,014,000
	30 April 2015	29/9/2014 – 28/9/2017	548,000	-	-	-	548,000	-	-	(50,000)	498,000
		30/4/2015 – 29/4/2016	436,000	-	-	-	436,000	-	(60,000)	-	376,000
		30/4/2015 – 29/4/2017	435,000	-	-	-	435,000	-	(60,000)	-	375,000
	18 March 2016	30/4/2015 – 29/4/2018	435,000	-	-	-	435,000	-	(60,000)	-	375,000
		18/3/2016 – 17/3/2017	427,000	-	-	-	427,000	-	(20,000)	(40,000)	367,000
		18/3/2016 – 17/3/2018	426,000	-	-	-	426,000	-	(20,000)	(40,000)	366,000
	27 November 2018	18/3/2016 – 17/3/2019	426,000	-	-	-	426,000	-	(20,000)	(40,000)	366,000
		27/11/2018 – 26/11/2019	-	-	-	-	-	934,000	-	-	934,000
		27/11/2018 – 26/11/2020	-	-	-	-	-	933,000	-	-	933,000
			27/11/2018 – 26/11/2021	-	-	-	-	933,000	-	-	933,000
			5,781,000	-	-	-	5,781,000	2,800,000	(240,000)	(270,000)	8,071,000
Employees and non-controlling shareholders of certain subsidiaries	29 September 2014	N/A	5,535,000	-	(189,000)	-	5,346,000	-	-	(1,203,000)	4,143,000
		29/9/2014 – 28/9/2015	11,623,000	-	(545,000)	-	11,078,000	-	-	(2,519,000)	8,559,000
		29/9/2014 – 28/9/2016	11,623,000	-	(545,000)	-	11,078,000	-	-	(2,519,000)	8,559,000
	30 April 2015	29/9/2014 – 28/9/2017	5,968,000	-	(357,000)	-	5,611,000	-	-	(1,313,000)	4,298,000
		30/4/2015 – 29/4/2016	6,244,000	-	(511,000)	-	5,733,000	-	-	-	5,733,000
		30/4/2015 – 29/4/2017	6,243,000	-	(511,000)	-	5,732,000	-	-	-	5,732,000
	18 March 2016	30/4/2015 – 29/4/2018	6,243,000	-	(511,000)	-	5,732,000	-	-	-	5,732,000
		18/3/2016 – 17/3/2017	10,484,000	-	(2,288,000)	-	8,196,000	-	(7,000)	(2,109,000)	6,080,000
		18/3/2016 – 17/3/2018	10,484,000	-	(2,288,000)	-	8,196,000	-	(7,000)	(2,109,000)	6,080,000
	27 November 2018	18/3/2016 – 17/3/2019	10,483,000	-	(2,288,000)	-	8,195,000	-	(8,000)	(2,109,000)	6,078,000
		27/11/2018 – 26/11/2019	-	-	-	-	-	5,555,000	-	-	5,555,000
		27/11/2018 – 26/11/2020	-	-	-	-	-	5,555,000	-	-	5,555,000
			27/11/2018 – 26/11/2021	-	-	-	-	5,555,000	-	-	5,555,000
			84,930,000	-	(10,033,000)	-	74,897,000	16,665,000	(22,000)	(13,881,000)	77,659,000
Total			90,711,000	-	(10,033,000)	-	80,678,000	19,465,000	(262,000)	(14,151,000)	85,730,000
Exercisable at the end of the year							57,268,000			59,821,000	
Weighted average exercise price (HKD)							6.92			6.55	
Weighted average exercise price at the date of exercise (HKD)							-			5.69	

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share option scheme of Colour Life (continued)

The closing price of Colour Life's shares on the date of grant was HKD6.66 on 29 September 2014, HKD10.88 on 30 April 2015, HKD5.76 on 18 March 2016 and HKD4.11 on 27 November 2018, respectively. Binomial Option Pricing Model had been used to estimate the fair value of Colour Life's options. The variables and assumptions used in computing the fair value of the share options are based on Colour Life's best estimate. The value of Colour Life's option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	27 November 2018	18 March 2016	30 April 2015	29 September 2014
Market price	HKD4.11	HKD5.76	HKD10.88	HKD6.66
Exercise price	HKD4.41	HKD5.76	HKD11.00	HKD6.66
Expected volatility	52.95%	46.20%	46.26%	48.82%
Risk-free rate	2.28%	1.27%	1.63%	2.01%
Expected dividend yield	1.85%	1.55%	0.83%	0.01%

The estimated fair value of the options at the date of grant was RMB114,820,000 on 29 September 2014, RMB104,714,000 on 30 April 2015, RMB72,023,000 on 18 March 2016 and RMB36,249,000 on 27 November 2018, respectively. Colour Life recognised the total expense of RMB10,788,000 (2017: RMB45,303,000) in share option reserve of Colour Life included in non-controlling interests for the year ended 31 December 2018 in relation to share options granted by Colour Life.

(c) Share option scheme of Morning Star

Morning Star, a wholly-owned subsidiary of the Company, operates a share option scheme (the "Morning Star's Scheme"). The Morning Star's Scheme was adopted pursuant to a resolution passed on 24 December 2015 for the primary purposes of providing incentives to certain directors and employees of the Morning Star and its subsidiaries ("Morning Star's Eligible Employees"). According to the Morning Star's Scheme, the Board of Directors of Morning Star is authorised to grant options at a consideration of HKD1 per option respectively to the Morning Star's Eligible Employees to subscribe for shares of Morning Star ("Morning Star's Shares").

The exercisable period of an option is determined by the directors of Morning Star at their discretion. The expiry date of Morning Star's Options may be determined by the Board of Directors of Morning Star which shall not be later than the expiry day of Morning Star's Scheme.

As at 31 December 2018, the total number of Morning Star's shares to be issued upon the exercise of all options granted under the Morning Star's Scheme is 2,000,000 (2017: 5,000,000) of HKD1 each, representing approximately 2% (2017: 5%) of the issued share capital of Morning Star.

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Morning Star (continued)

Details of the share options granted under Morning Star's Scheme is as follows:

Category of grantees	Date of grant	Granted	Vesting period	Exercisable period	Vesting condition
Employees	24 December 2015	2,000,000	25/12/2015 – 30/3/2017	1/4/2017 – 30/4/2017	The net profit of Morning Star for year ending 31 December 2016 meets RMB10,000,000
		3,000,000	25/12/2015 – 30/3/2018	1/4/2018 – 30/4/2018	The net profit of Morning Star for year ending 31 December 2017 meets RMB20,000,000
		2,000,000	25/12/2015 – 30/3/2019	1/4/2019 – 30/4/2019	The net profit of Morning Star for year ending 31 December 2018 meets RMB40,000,000

The following table of the Company discloses movements of Morning Star's share options held by Eligible Employees during the years ended 31 December 2018 and 2017:

Category of grantees	Date of grant	Vesting period	Outstanding at 1 January 2017	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding		Lapsed during the year	Exercised during the year	Outstanding	
							at 31 December 2017	at 31 December 2018			at 31 December 2017	at 31 December 2018
Employees	24 December 2015	25/12/2015 – 30/3/2017	2,000,000	-	(2,000,000)	-	-	-	-	-	-	-
		25/12/2015 – 30/3/2018	3,000,000	-	-	-	3,000,000	-	(3,000,000)	-	-	-
		25/12/2015 – 30/3/2019	2,000,000	-	-	-	2,000,000	-	-	-	-	2,000,000
Total			7,000,000	-	(2,000,000)	-	5,000,000	-	(3,000,000)	-	2,000,000	
Exercisable at the end of the year							-					-

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52. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Morning Star (continued)

Binomial Option Pricing Model had been used to estimate the fair value of these share-based payment transactions with cash alternative arrangements. The estimated fair value of the share options of Morning Star is RMB5,743,000 which represented the goods or services received from the Morning Star's Eligible Employees. The variables and assumptions used in computing the fair value of the share options are based on the management of the Company's best estimate. The expected volatility is based on the historical annualised daily volatilities of comparable companies as if the same sector. Risk-free rate is based on the yield of HK Hong Kong Exchange Fund Notes as of valuation date as quoted from Bloomberg. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

	24 December 2015
Share price	HKD1.85
Exercise price	HKD1.00
Expected volatility	45.5% – 54.6%
Risk-free rate	0.25% – 0.84%
Expected dividend yield	0.0%

Morning Star recognised the total expense of RMB773,000 (2017: RMB1,913,000) in share option reserve of Morning Star included in non-controlling interests for the year ended 31 December 2018 in relation to share options granted by Morning Star.

(d) Share award scheme of Colour Life

On 4 July 2016, a share award scheme (the "Colour Life's Share Award Scheme") was adopted by Colour Life, to certain employees and consultants of Colour Life, a non-wholly owned subsidiary of the Company, as incentives or rewards for their contribution or potential contribution to Colour Life. The shares to be awarded are repurchased and held by an independent trustee appointed by Colour Life ("Trustee").

Up to 31 December 2017, total of 1,766,000 of Colour Life's shares were acquired by the Trustee for the Colour Life's Share Award Scheme at a consideration of RMB9,010,000 in aggregate. During the year ended 31 December 2018, all of 1,766,000 of Colour Life's shares were awarded to eligible employees for their satisfactory performance. The fair value of the awarded shares at the date of grant of RMB5,909,000 was recognised as expenses.

During the year ended 31 December 2018, total of 1,597,000 of Colour Life's Shares were acquired by the Trustee for the Colour Life's Share Award Scheme at a consideration of RMB5,585,000. Up to 31 December 2018, total of 1,597,000 of Colour Life's Shares acquired have not been awarded to eligible employees or consultants of Colour Life.

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53. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the Mandatory Provident Fund Scheme, which contribution is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC Government. The Company's subsidiaries are required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of RMB250,027,000 (2017: RMB148,927,000) respectively, represented contributions from the continuing operation payable to the scheme.

54. CONTINGENT LIABILITIES

	2018 RMB'000	2017 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	9,789,678	7,296,670

The Group had provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with accrued interests thereon and any penalty owed by the defaulted purchasers to banks. The Group is then entitled to take over the legal title of the related properties. The guarantee period commences from the dates of grant of the relevant mortgage loans and ends after the buyer obtained the individual property ownership certificate.

In the opinion of the directors, the possibility of the default of the purchasers is remote and the fair value of guarantee contracts is insignificant at the inception and at the end of each reporting period.

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55. RELATED PARTY DISCLOSURES

During the year, in addition to those disclosed in elsewhere in the consolidated financial statements, the Group had following significant transactions with related parties:

(a) Related party transactions

Related parties	Relationship	Transactions	2018 RMB'000	2017 RMB'000
Wanxiangmei	A subsidiary of Shenzhen Wanxiang, a previous joint venture of the Group and acquired by the Group on 29 December 2017 (note 45(b))	Consultancy service fee income	N/A	92,933
Shenzhen Wanxiang	A previous joint venture of the Group and acquired by the Group on 29 December 2017 (note 45(b))	Management fee income	N/A	7,920
Shenzhen Cube Architecture Designing Consultants Co., Ltd. (深圳市立方建築設計顧問有限公司) ("Shenzhen Cube")	An associate of Shenzhen Tiankuo Investment Development Co., Ltd. (深圳市天闊投資發展有限公司) ("Shenzhen Tiankuo"), a related company controlled by Ms. Zeng Jie, Baby, the controlling shareholder and director of the Company	Design service fee expense	61	1,814
Shenzhen Cube	An associate of Shenzhen Tiankuo, a related company controlled by Ms. Zeng Jie, Baby, the controlling shareholder and director of the Company	Rental income	964	964
Shenzhen Colour Pay Network Technology Co., Ltd.	A related company controlled by Mr. Pan Jun, a director and the chief executive officer of the Company	Commission income	40,272	19,408

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55. RELATED PARTY DISCLOSURES (continued)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2018 RMB'000	2017 RMB'000
Short-term benefits	94,977	91,189
Post-employment benefits	24,188	21,637
	119,165	112,826

(c) Others

(i) As at 31 December 2018, certain directors of the Company provided joint guarantees to the banks and trust company to secure the Group's bank and other borrowings amounting to RMB846,000,000 (2017: RMB795,969,000) in aggregate.

(ii) During the year ended 31 December 2018, the Group had sold certain properties to its key management personnel of the Group, at a cash consideration of RMB8,021,000 (2017: RMB45,947,000).

56. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2018 and 2017, pursuant to the agreements entered into with the Group's certain fellow subsidiaries and independent property developers, all of which are customers of the Group, these customers agreed to dispose of their properties to the Group for the settlement of trade receivables due to the Group.

The carrying amounts of trade receivables which were settled by transfer of investment properties to the Group during the reporting period are as follows:

	2018 RMB'000	2017 RMB'000
Trade receivables due from:		
Fellow subsidiaries	–	6,417
Independent third party customers	60,271	3,336
	60,271	9,753

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57. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities granted to the Group at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Properties for sale	6,374,242	2,139,194
Investment properties	2,484,166	2,150,253
Pledged bank deposits	988,457	377,176
Property, plant and equipment	132,278	295,167
Prepaid lease payments	75,784	—
	10,054,927	4,961,790

The Group's equity interests in certain subsidiaries have been pledged to secure certain banking and other facilities granted to the Group.

58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) Material subsidiaries of the Company

Particulars of principal subsidiaries indirectly held, unless otherwise stated, by the Company as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2018	2017		
Colour Life [†]	The Cayman Islands 16 March 2011	84,313	55.35%	50.39%	Investment holding	Limited liability company
Fantasia Group China*	The PRC 20 January 2006	1,624,844	100%	100%	Investment holding	Limited liability company
Shenzhen Colour Life* [†]	The PRC 25 August 2006	100,000	55.35%	50.39%	Provision of property operation services	Limited liability company
深圳市花樣年地產集團有限公司 Shenzhen Huayangnian Property Development Group Co., Ltd*	The PRC 28 September 1996	150,000	100%	100%	Investment holding	Limited liability company
南京花樣年房地產開發有限公司 Nanjing Fantasia Real Estate Investment Development Co., Ltd.*	The PRC 25 February 2011	661,253	100%	100%	Property development and property investment	Limited liability company

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2018	2017		
深圳市花樣年房地產開發有限公司 Shenzhen Fantasia Real Estate Co., Ltd.*	The PRC 20 April 2006	320,000	100%	100%	Property development	Limited liability company
深圳市金地盈投資有限公司 Shenzhen Jindiyong Investing Co., Ltd.*	The PRC 23 August 2005	10,000	81%	81%	Property development	Limited liability company
慈溪嘉年鴻迪房地產開發有限公司 Cixi Jianian Real Estate Co., Ltd.*	The PRC 25 May 2017	10,000	100%	100%	Property development	Limited liability company
武漢華通置業發展有限公司 Wuhan Huatong Property Co., Ltd.*	The PRC 15 March 1999	645,170	100%	100%	Property development and property investment	Limited liability company
蘇州花萬裡房地產開發有限公司 Suzhou Huawanli Real Estate Co., Ltd.*	The PRC 9 September 2009	180,000	100%	100%	Property development	Limited liability company
桂林聚豪房地產開發有限公司 Guilin Juhao Property Development Co., Ltd.*	The PRC 14 November 2007	250,000	100%	100%	Property development	Limited liability company
成都望叢房地產開發有限公司 Chengdu Wangcong Property Development Co., Ltd.*	The PRC 28 June 2014	394,000	100%	100%	Property development	Limited liability company
蘇州銀莊置地有限公司 Suzhou Yinzhuan Real Estate Co., Ltd.*	The PRC 25 January 2006	500,000	100%	100%	Property development and property investment	Limited liability company
惠州TCL房地產開發有限公司 Huizhou TCL Property Development Co., Ltd.*	The PRC 29 December 2004	100,000	100%	100%	Property development	Limited liability company
武漢TCL置地投資有限公司 Wuhan TCL Real Estate Investment Co., Ltd.*	The PRC 06 May 2011	30,000	100%	100%	Property development and property investment	Limited liability company
武漢TCL康城房地產開發有限公司 Wuhan TCL Kangcheng Property Development Co., Ltd.*	The PRC 12 September 2012	10,000	100%	100%	Property development	Limited liability company
南京花樣城房地產開發有限公司 Nanjing Huayang City Property Development Co., Ltd.*	The PRC 25 February 2011	50,000	100%	100%	Property development and property investment	Limited liability company

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2018	2017		
天津松江花樣年置業有限公司 Tianjin Songjiang Huayangnian Properties Co., Ltd*	The PRC 29 May 2006	50,000	60%	60%	Property development and property investment	Limited liability company
成都花樣清江房地產開發有限公司 Chengdu Huangyang Qingjiang Property Development Co., Ltd*	The PRC 23 April 2018	420,000	100%	N/A	Property development	Limited liability company
安寧花千里房地產開發有限公司 An'ning Huaqianli Property Development Co., Ltd*	The PRC 20 March 2018	10,000	63%	N/A	Property development	Limited liability company
成都花樣家置業有限公司 Chengdu Huayangjia Properties Co., Ltd*	The PRC 9 April 2018	180,000	100%	N/A	Property development	Limited liability company
成都禦府房地產開發有限公司 Chengdu Yufu Property Development Co., Ltd*	The PRC 2 August 2010	10,000	100%	100%	Property investment	Limited liability company
天津花樣年房地產開發有限公司 Tianjin Huayangnian Property Development Co., Ltd*	The PRC 1 January 2013	306,495	100%	100%	Property investment	Limited liability company
武漢美樂居置業有限公司 Wuhan Meileju Property Development Co., Ltd.*	The PRC 21 November 2014	10,000	50.10%	50.10%	Property development	Limited liability company
北油電控燃油噴射系統(天津)有限公司 Beiyou Electronic Fuel Injection System (Tianjin) Co., Ltd.*	The PRC 12 December 2017	50,000	100%	100%	Manufacturing and sale of fuel pumps	Limited liability company
寧夏回族自治區新聖基建築工程有限公司 Ningxia Huizu Xinshengji Engineering Project Co., Ltd.*	The PRC 22 July 2009	100,000	100%	100%	Provision of property operation services	Limited liability company
深圳市彩生活物業管理有限公司 Shenzhen Colour Life Property Management Co., Ltd.*	The PRC 11 December 2000	35,000	55.35%	50.39%	Provision of property operation services	Limited liability company
深圳市彩生活網路服務有限公司 Shenzhen Colour Life Network Services Co., Ltd.*	The PRC 12 June 2007	90,000	55.35%	50.39%	Provision of property operation services	Limited liability company

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital RMB'000	Effective interest held by the Group		Principal activities	Legal form
			2018	2017		
深圳市開元同濟樓宇科技有限公司 Shenzhen Kaiyuan Tongji Building Science & Technology Co., Ltd.*#	The PRC 15 November 2001	5,000	55.35%	50.39%	Provision of engineering services	Limited liability company
深圳市開元國際物業管理有限公司 Shenzhen Kaiyuan International Property Management Co., Ltd.*#	The PRC 19 Oct 2000	50,000	55.35%	50.39%	Provision of property operation services	Limited liability company
Chengdu Tourism*	The PRC 07 September 2006	1,921,386	70%	70%	Property development	Limited liability company
Tianjin Huaqianli*	The PRC 22 December 2010	941,667	60%	60%	Property development and property investment	Limited liability company
Guilin Wanhao*	The PRC 14 November 2007	357,143	70%	70%	Property development and property investment	Limited liability company
Sichuan Hanfeng*	The PRC 23 July 2008	594,750	55%	55%	Property development and investment	Limited liability company
Wanxiangmei**#k	The PRC 8 May 2015	50,000	55.35%	100%	Provision of property operation service	Limited liability company
Nanjing Zhongchu*	The PRC 10 January 2013	240,000	70%	70%	Property development	Limited liability company
Wuhan Zhongsenhua*	The PRC 14 June 2011	100,000	100%	100%	Property development	Limited liability company
Sichuan Ximei *^	The PRC 7 June 2004	427,500	51%	N/A	Property development	Limited liability company
Tangshan Jinsheng*^	The PRC 26 March 2016	5,000	51%	N/A	Property development	Limited liability company
Taicang Qihao*	The PRC 12 February 2007	150,000	100%	100%	Property investment	Limited liability company
Chengdu Qianyin*	The PRC 09 June 2010	60,000	100%	100%	Property investment	Limited liability company

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(a) Material subsidiaries of the Company (continued)

* The English name is for identification purpose only.

These subsidiaries were held by a non-wholly owned subsidiary of the Company namely Colour Life as at 31 December 2018 and 2017.

^ These subsidiaries were acquired during the year ended 31 December 2018. Details are set out in note 45(a) and (b).

△ Except for the subsidiary directly held by the Company, all other subsidiaries are indirectly owned by the Company.

⊗ The change in effective interests in Colour Life and Wanxiangmei during the year ended 31 December 2018 were disclosed in note viii to the consolidated statement of changes in equity and note 46(b).

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results, assets or debt securities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Except for Fantasia Group China and Shenzhen Colour Life, none of the subsidiaries had issued debt securities at the end of the year.

(b) Composition of the Group

Information about the subsidiaries of the Company that are not material to the Group at the end of each reporting period is as follow:

Principal activities	Principal place of business	Number of subsidiaries	
		2018	2017
Investment holding	BVI	20	20
	Hong Kong	19	19
	PRC	18	18
	USA	5	4
	Singapore	1	1
	Cayman	1	1
Property development	PRC	188	144
	Singapore	1	1
Property investment	PRC	2	1
	Japan	1	1
	USA	1	1
Property agency services	PRC	1	1
Property operation services	PRC	121	121
Hotel operations	PRC	5	5
	USA	1	1
Other operations	Hong Kong	5	4
	PRC	2	4
	Macao	1	1
		393	348

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(c) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Company as at 31 December 2018 and 2017 that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Ownership interests and rights held by non-controlling interests		Profit (loss) attributable to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	2018	2017
				RMB'000	RMB'000	RMB'000	RMB'000
Colour Life and its subsidiaries	PRC	44.65%	49.61%	247,362	189,070	1,507,175	1,792,438
Chengdu Tourism	PRC	30%	30%	2,602	–	857,825	855,223
Sichuan Hanfeng	PRC	45%	45%	(30,095)	16,977	718,388	748,483
Sichuan Ximei	PRC	49%	N/A	105,066	N/A	494,875	N/A
				324,935	206,047	3,578,263	3,396,144
Individually immaterial subsidiaries with non-controlling interests				114,910	49,348	2,912,718	1,664,970
				439,845	255,395	6,490,981	5,061,114

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

- (c) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)
Summarised financial information in respect of Company's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represented amounts before intra-group eliminations.

	Colour Life and its subsidiaries		Chengdu Tourism	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Current assets	5,783,563	4,648,122	3,651,737	3,444,248
Non-current assets	4,282,730	4,163,987	956,679	967,284
Current liabilities	(4,593,616)	(2,849,858)	(1,429,069)	(1,560,789)
Non-current liabilities	(2,216,538)	(2,457,072)	(319,929)	–
Equity attributable to owners of the				
Company	1,748,964	1,712,741	2,001,593	1,995,520
Non-controlling interests	1,507,175	1,792,438	857,825	855,223
Revenue	3,613,658	1,628,698	239,442	365,950
Expenses	(3,095,631)	(1,278,049)	(230,767)	(325,026)
Profit for the year	518,027	350,649	8,675	40,924
Profit attributable to the owners of the				
Company	270,665	161,579	6,073	40,924
Profit attributable to the non-controlling interests	247,362	189,070	2,602	–
Net cash inflow (outflow) from operating activities	537,690	141,159	(168,095)	149,044
Net cash inflow (outflow) from investing activities	122,270	2,731	(13,091)	(815)
Net cash inflow (outflow) from financing activities	150,662	950,110	161,507	(97,578)
Net cash inflow (outflow)	810,622	1,094,000	(19,679)	50,651

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58. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

(c) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	Sichuan Hanfeng		Sichuan Ximei	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	5,977,095	3,270,738	7,732,717	N/A
Non-current assets	378,138	375,444	350,318	N/A
Current liabilities	(3,785,700)	(957,731)	(7,073,086)	N/A
Non-current liabilities	(973,116)	(1,025,156)	–	N/A
Equity attributable to owners of the Company	878,029	914,812	515,074	N/A
Non-controlling interests	718,388	748,483	494,875	N/A
Revenue	–	–	691,909	N/A
Change in fair value of investment properties	10,456	220,623	–	N/A
Expenses	(77,334)	(96,264)	(477,488)	N/A
(Loss) profit for the year	(66,878)	124,359	214,421	N/A
(Loss) profit attributable to the owners of the Company	(36,783)	107,382	109,355	N/A
(Loss) profit attributable to the non-controlling interests	(30,095)	16,977	105,066	N/A
Net cash (outflow) inflow from operating activities	(497)	(125,106)	219,972	N/A
Net cash outflow from investing activities	(70,782)	(330)	(21,559)	N/A
Net cash (outflow) inflow from financing activities	(59,900)	392,545	(208,127)	N/A
Net cash (outflow) inflow	(131,179)	267,109	(9,714)	N/A

For the year ended 31 December 2018

59. FINANCIAL SUMMARY OF THE COMPANY

Statement of financial position of the Company

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	3,772,625	3,210,991
Amounts due from subsidiaries	11,652,927	9,814,746
	15,425,552	13,025,737
CURRENT ASSETS		
Other receivables	3,732	16,988
Bank balances and cash	559,313	617,850
	563,045	634,838
CURRENT LIABILITIES		
Other payables	10,159	36,970
Amounts due to subsidiaries	130,990	62,681
Senior notes	4,650,818	4,484,610
	4,791,967	4,584,261
NET CURRENT LIABILITIES	(4,228,922)	(3,949,423)
TOTAL ASSETS LESS CURRENT LIABILITIES	11,196,630	9,076,314
NON-CURRENT LIABILITIES		
Senior notes	13,575,989	8,602,912
Bank borrowings due after one year	–	650,000
	13,575,989	9,252,912
NET LIABILITIES	(2,379,359)	(176,598)
CAPITAL AND RESERVES		
Share capital	497,945	497,868
Reserves	(2,877,304)	(674,466)
	(2,379,359)	(176,598)

For the year ended 31 December 2018

59. FINANCIAL SUMMARY OF THE COMPANY (continued)

Movement of reserves

	Share premium RMB'000	Accumulated losses RMB'000	Share options reserve RMB'000	Total RMB'000
At 1 January 2017	1,945,103	(2,060,214)	17,591	(97,520)
Loss and total comprehensive expense for the year	–	(327,041)	–	(327,041)
Issue of shares upon exercise of share options	201	–	(57)	144
Dividend distributed to shareholders of the Company (note 13)	(250,049)	–	–	(250,049)
At 31 December 2017	1,695,255	(2,387,255)	17,534	(674,466)
Loss and total comprehensive expense for the year	–	(1,874,209)	–	(1,874,209)
Issue of shares upon exercise of share options	802	–	(214)	588
Dividend distributed to shareholders of the Company (note 13)	(329,217)	–	–	(329,217)
At 31 December 2018	1,366,840	(4,261,464)	17,320	(2,877,304)

60. EVENTS AFTER THE END OF THE REPORTING PERIOD

- (a) On 28 January 2019, the Company issued guaranteed fixed rate senior notes with aggregate nominal value of USD100,000,000 which carry fixed interest of 15% per annum and mature in 2021. The proceeds are to be used for refinancing certain of the Group's existing indebtedness and for the general working capital purposes.
- (b) On 5 March 2019, the Company issued guaranteed fixed rate senior notes with aggregate nominal value of RMB1,000,000,000 which carry fixed interest of 11.875% per annum and mature in 2020. The proceeds are to be used for refinancing certain of the Group's existing indebtedness and for the general working capital purposes.

REGISTERED OFFICES

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