

Announcement on the Group's Investment in Sincere Property, China

The Board of Directors of City Developments Limited (“**CDL**” or the “**Company**”, and for purposes of this announcement, the “**CDL Group**” refers to CDL and its subsidiaries) wishes to announce that the CDL Group has on 15 April 2020 entered into a series of agreements with the key party being HCP Chongqing Property Development Co Ltd (“**HCP**”), an investment holding company incorporated in the Cayman Islands that is the indirect controlling shareholder of 重庆协信远创实业有限公司 (“**Sincere Property**” or “**Sincere**”). The new agreements set out the revised terms for the CDL Group's intended investment in Sincere Property.

1. **INTRODUCTION**

1.1 On 15 May 2019, CDL announced (the “**May 2019 Announcement**”) a proposed strategic investment (the “**Original Sincere Strategic Investment**”) in Sincere Property, an established real estate developer and operator in the People's Republic of China (the “**PRC**”).

1.2 **Original Sincere Strategic Investment**

As set out in the May 2019 Announcement, CDL entered into various agreements with HCP in connection with the Original Sincere Strategic Investment, pursuant to which, *inter alia*:

- (i) CDL extended an interest-bearing loan to HCP in the amount of RMB2.75 billion (representing approximately S\$0.55 billion¹) (the “**Initial Tranche Loan**”); and
- (ii) on completion of the Original Sincere Strategic Investment, part of the Initial Tranche Loan would be converted into equity in HCP with the other part continuing as a loan, and a further RMB2.75 billion (representing approximately S\$0.55 billion) would be invested in HCP through equity subscription and an interest-bearing loan.

Completion of the Original Sincere Strategic Investment was subject to various conditions precedent and was expected to complete in the fourth quarter of 2019. Had CDL completed the Original Sincere Strategic Investment, CDL would have acquired an equity interest of approximately 29.9% in HCP, resulting in an effective interest of approximately 24.0% in Sincere Property for a total investment amount of RMB5.5 billion (representing approximately S\$1.10 billion).

The Original Sincere Strategic Investment has not been completed and CDL has not acquired any equity interest in Sincere Property. Instead, given the adverse impact of the COVID-19 crisis and the global uncertainty, CDL has taken the opportunity to renegotiate the terms for its investment into Sincere Property.

¹ Unless otherwise stated, the S\$ equivalent of RMB amounts in this Announcement are based on an exchange rate of RMB1 : S\$0.2009 as at 14 April 2020.

1.3 Information on Sincere Property

Sincere Property is an established real estate developer in the PRC with a full set of development and asset management capabilities across different sectors, including residential, retail, office, hotel and serviced residence, business park and large-scale mixed-use development. Ranked as one of the Top 100 Developers in China, Sincere has a development land bank of 9.2 million square metres (sqm) with 64 development projects across 18 cities in the PRC as at 31 December 2019. More than 96% of the land bank is located in Tier 1 and 2 cities in the PRC. Sincere has a full spectrum of residential projects ranging from high-end to mass market which include villas as well as low- and high-rise condominiums. Sincere also owns and/or operates a substantial portfolio of investment properties in the PRC, including 9 retail malls with a total gross floor area (GFA) of about 565,000 sqm, a serviced residence with 404 apartments and 4 hotels with more than 1,000 rooms.

1.4 Shareholders of Sincere Property

As at the date of this Announcement, the shareholders of Sincere Property are HCP Chongqing Property Development (HK) Co. Limited ("**HCP HK**"), an investment holding company incorporated in Hong Kong, and Greenland Holdings Group Co., Ltd. ("**Greenland**"), a company incorporated in the PRC, who hold 60.00% and 40.00% of the share capital of Sincere Property respectively. HCP HK is in turn wholly-owned by HCP (collectively, HCP, HCP HK and Sincere Property are the "**HCP Group**").

HCP is wholly-owned by Sincere Property Holdings Limited ("**SPHL**"), an investment holding company also incorporated in the Cayman Islands. SPHL is an indirect wholly-owned entity of Mr Wu Xu ("**Mr Wu**"), the Chairman and founder of Sincere Property.

2. NEW SINCERE TRANSACTION

2.1 Notwithstanding the current operating conditions in China and the ongoing COVID-19 pandemic, CDL continues to hold a long-term view of its investments in the PRC and remains confident of the PRC's strong fundamentals and ability to rebound. CDL remains keen to proceed with the strategic partnership in respect of Sincere Property. The current situation offers a window of opportunity to assess real estate investments at attractive valuations and accordingly, CDL has reached an agreement with the relevant parties on 15 April 2020 to amend the terms of the Original Sincere Strategic Investment (the "**New Sincere Transaction**").

2.2 Key Salient Terms of the New Sincere Transaction

Pursuant to the terms of the New Sincere Transaction:

- (i) A wholly-owned subsidiary of CDL will acquire a 63.75% equity interest in HCP (the "**Relevant HCP Interest**") through a combination of (a) the acquisition of equity interest from SPHL, and (b) the subscription for new equity interests in HCP. The remaining 36.25% of HCP will be held by SPHL;
- (ii) the aggregate consideration payable by CDL for the Relevant HCP Interest is approximately RMB4.39 billion (representing approximately S\$0.88 billion) (the "**New Sincere Investment Amount**"), which will be paid in stages following the satisfaction of certain conditions precedent and the occurrence of certain events. A portion of the New Sincere Investment Amount will be used by HCP to repay the Initial Tranche Loan of RMB2.75 billion to CDL as mentioned in paragraph 1.2(i) above; and
- (iii) on or before completion of the acquisition of the Relevant HCP Interest (the "**Relevant HCP Interest Completion**"), the shareholding percentage of HCP

HK and Greenland in Sincere Property will be restructured resulting in each holding 80.01% and 19.99% of the share capital of Sincere Property respectively. This will result, upon the Relevant HCP Interest Completion, in CDL holding an effective interest of approximately 51.01% in Sincere Property, and in Mr Wu holding an effective interest of approximately 29.0% in Sincere Property. Notwithstanding the above, the terms of the New Sincere Transaction include provisions stipulating that key decisions in respect of Sincere Property would be made jointly by CDL and Mr Wu. Accordingly, CDL's interest in HCP, following the Relevant HCP Interest Completion, will be deemed as a joint controlling interest and HCP (and Sincere Property) will be accounted for as joint venture companies of the CDL Group.

2.3 **Call Option**

In addition to the terms set out in paragraph 2.2 above, a call option will be granted to CDL to acquire 11.25% of HCP representing an effective interest of approximately 9.0% in Sincere Property (the **"Call Option"**), exercisable at a price of RMB0.77 billion (representing approximately S\$0.16 billion) (the **"Option Consideration"**). The Call Option will be exercisable at CDL's discretion during a six-month period (the **"Exercise Period"**) which will only commence on the later of (i) the expiry of 18 months from the date of the Relevant HCP Interest Completion, and (ii) 1 July 2022. In accordance with the terms of the Call Option, the Call Option may also be exercised by CDL prior to the commencement of the Exercise Period in the event of the occurrence of certain events, including, but not limited to, any material breach of the terms of the New Sincere Transaction by the relevant counter-parties to the relevant agreements.

The exercise of the Call Option will result in CDL gaining an aggregate controlling interest of 75.00% in HCP and an effective controlling interest of approximately 60.01% in Sincere Property, making CDL the sole controlling shareholder of the company.

2.4 **Consideration for the New Sincere Transaction and the exercise of the Call Option**

The aggregate consideration payable for the Relevant HCP Interest and the exercise of the Call Option is RMB5.16 billion (representing approximately S\$1.04 billion), comprising:

- (i) the New Sincere Investment Amount of approximately RMB4.39 billion (representing approximately S\$0.88 billion) upon the Relevant HCP Interest Completion; and
- (ii) the Option Consideration of approximately RMB0.77 billion (representing approximately S\$0.16 billion), payable only upon exercise of the Call Option.

The New Sincere Investment Amount and the Option Consideration were agreed on a willing buyer willing seller basis, taking into account an agreed valuation of Sincere Property at RMB8.6 billion, vis-à-vis the net asset value ("**NAV**") of Sincere Property of RMB16.48 billion based on the unaudited consolidated financial statements of Sincere Property for the financial year ended 31 December 2019 ("**FY2019**").

The New Sincere Investment Amount and the Option Consideration will be funded through internal cash resources and credit facilities available to the CDL Group.

2.5 **Rationale for the New Sincere Transaction**

CDL's rationale for the Original Sincere Strategic Investment as set out in the May 2019 Announcement remains relevant for the New Sincere Transaction. This investment will offer CDL the opportunity to partner with Sincere Property, a prominent real estate developer in the PRC with more than 20 years' track record, and to acquire a meaningful stake in an established platform. Furthermore, it will allow for a sizable expansion of the CDL Group's footprint in the PRC, increasing its geographical presence from 3 cities to 18 cities in the PRC through Sincere Property's substantial

portfolio and pipeline of development projects and investment properties. As at 31 December 2019, the CDL Group's China portfolio comprises over S\$3 billion, or 13% of its total assets. Upon the Relevant HCP Interest Completion, CDL's China portfolio will grow to over S\$4 billion, accounting for 17% of its global asset portfolio.

Leveraging on Sincere Property's development and asset management capabilities, local expertise and wide geographical presence in the PRC, the strategic partnership will allow CDL to accelerate its growth in the sizable PRC market. In addition, it will strengthen CDL's expertise in familiar segments like residential, office, retail and hospitality while broadening its capabilities into new asset classes like business parks.

Instead of acquiring an effective interest of only approximately 24.0% in Sincere Property for an aggregate consideration of RMB5.5 billion under the Original Sincere Strategic Investment, the New Sincere Transaction at an aggregate consideration of RMB5.16 billion provides CDL with the opportunity to establish its strategic partnership with Sincere Property, first with an initial acquisition of a joint controlling stake in HCP and a resulting effective interest of approximately 51.01% in Sincere Property, and subsequently, to potentially obtain a controlling stake and effective interest of 60.01% in Sincere Property following the exercise of the Call Option.

The initial joint control arrangement will allow CDL to work closely with Mr Wu to review Sincere Property's business operations, assets and liabilities, and to optimise the financial position of Sincere Property through the restructuring of Sincere Property's debt obligations. These initiatives include, but are not limited to, debt refinancing and repayment, the disposal of non-core assets, rebalancing of Sincere Property's portfolio with a focus on strengthening cash flows and recalibration of development timeframes and sales strategies, strengthening management capabilities as well as implementing strategies to achieve synergies and cost efficiencies to drive profitability by leveraging on the CDL Group's wider resources and capabilities.

The New Sincere Transaction is in, or in connection with, the ordinary course of business of the CDL Group as Sincere Property's business as a real estate developer with development and asset management capabilities in the residential, retail, office, hotel and serviced residence, business park and large-scale mixed-use development segments aligns with the CDL Group's core business segments of development properties, investment properties and hotels.

Based on its unaudited consolidated financial statements for FY2019, Sincere Property is profitable with profit before income tax and non-controlling interests of RMB503.32 million (representing approximately S\$101.11 million) and PATMI of RMB202.50 million (representing approximately S\$40.68 million). This is after deducting significant financing costs of RMB1.7 billion (representing approximately S\$340 million) and excluding any fair value gains on its investment properties portfolio, therefore the PATMI figure represents the cash earnings of Sincere Property in 2019.

The New Sincere Transaction is in line with the overseas diversification and expansion strategy of the CDL Group as part of CDL's G.E.T. strategy (focusing on Growth, Enhancement and Transformation) to renew and reposition its business, sharpen its value proposition and expand its asset portfolio. In particular, Transformation (the "T" in G.E.T.) involves making game-changing, sizable acquisitions that can significantly bolster the Group's presence and expertise, and this is at the heart of the rationale behind the New Sincere Transaction.

3. **Pro Forma Financial Effects of the New Sincere Transaction on the CDL Group for FY2019 or as at 31 December 2019**

3.1 **Bases and Assumptions.** The following pro forma financial effects of the New Sincere Transaction on the CDL Group have been computed based on the CDL Group's FY2019 Financial Statements and the unaudited consolidated financial statements of the HCP Group (the "**HCP Group FY2019 Financial Statements**"). The HCP Group FY2019 Financial Statements have been derived from the consolidation of Sincere Property's unaudited consolidated financial statements for FY2019 (the "**Sincere Property FY2019 Financial Statements**") with the unaudited financial statements for FY2019 for HCP and HCP HK. The pro forma financial effects are for illustrative purposes only, are theoretical in nature and not necessarily indicative of the future financial position and earnings of the CDL Group following the New Sincere Transaction.

The pro forma financial effects have also been prepared based on the following bases and assumptions:

- (i) the aggregate cash consideration payable (including in respect of the exercise of the Call Option) will be funded primarily through external borrowings of the CDL Group, including the use of cross currency swaps / forex swaps. It is assumed that the interest payable of 3.5% per annum would be incurred for such borrowings;
- (ii) the fair value of the net assets of the HCP Group is yet to be determined at this juncture. For the purpose of these pro forma financial effects, it is assumed that the fair value of the net assets of the HCP Group is the same as the reported net assets of the HCP Group as at 31 December 2019, which is derived from the Sincere Property FY2019 Financial Statements and the HCP Group FY2019 Financial Statements, and taking into account the occurrence of certain events and conditions precedent as stipulated in the proposed terms of the New Sincere Transaction.

Accordingly, substantial negative goodwill may be recorded by the CDL Group. For the pro forma financial effects, it is assumed that negative goodwill of approximately S\$867 million would be recognized. This is arising from the difference between the agreed valuation of Sincere Property at RMB8.6 billion (representing approximately S\$1.66 billion²) vis-à-vis the NAV of Sincere Property of RMB16.48 billion (representing approximately S\$3.19 billion²) as set out in the Sincere Property FY2019 Financial Statements.

The pro forma financial effects, calculated based on the assumption that the book value of the HCP Group is equivalent to its fair value, is purely for illustrative purposes. Following the Relevant HCP Interest Completion, the CDL Group will commence a purchase price allocation exercise by assessing the fair value of the HCP Group. Currently, the process of conducting external independent valuations is in progress, and should such independent valuations be lower than the current carrying values of the investment properties, the negative goodwill will also be adjusted to reflect such lower valuation(s);

- (iii) the accounting policies adopted by Sincere Property and the CDL Group in respect of accounting for investment properties are not aligned. The CDL Group maintains a prudent accounting policy of accounting for its investment properties using a cost model (at cost less accumulated depreciation less accumulated impairment loss) while Sincere Property accounts for its

² Based on an exchange rate of RMB1: S\$0.1935 as at 31 December 2019.

investment properties at fair value. For purposes of the proforma financial effects, the investment properties of Sincere Property are depreciated in accordance to CDL's accounting policy for investment properties;

- (iv) the Initial Tranche Loan was interest bearing at 10% and the CDL Group has recognised approximately S\$49.5 million of interest income in the CDL Group FY2019 Financial Statements. It is assumed that the Initial Tranche Loan is not in place as at 1 January 2019 as it will be repaid on the Relevant HCP Interest Completion pursuant to the terms of the New Sincere Transaction, and accordingly the interest income of S\$49.5 million is excluded for purposes of determining the pro forma financial effects for FY2019;
- (v) CDL's acquisition of a property in 2019 from Sincere Property generated a pre-tax gain for Sincere Property, and in line with accounting principles of consolidation for intercompany eliminations, the gain has been eliminated for purposes of determining the pro forma financial effects for FY2019; and
- (vi) **the pro forma financial effects do not take into account CDL's proposed plans to improve the financial position of Sincere Property prior to the potential exercise of the Call Option, through, *inter alia*, the restructuring of Sincere Property's debt obligations and the disposal of non-core assets with a view to reducing debt and boosting liquidity, as set out in paragraph 2.5 above.**

3.2 **Earnings.** For illustrative purposes only and assuming that the New Sincere Transaction had been completed on 1 January 2019, the pro forma financial effects of the transaction on the earnings per CDL Share are as follows:

	Before New Sincere Transaction	After New Sincere Transaction*	
		Relevant HCP Interest Completion	Relevant HCP Interest Completion and Exercise of Call Option
Net Profit after tax and non-controlling interests (S\$ million)	565	1,279	1,259
Earnings per CDL Share – Basic (S\$) ⁽¹⁾	0.61	1.40 ⁽³⁾	1.37 ⁽³⁾
Earnings per CDL Share – Diluted (S\$) ⁽²⁾	0.59	1.34 ⁽³⁾	1.32 ⁽³⁾

* As set out above, the pro forma financial effects of the earnings of the CDL Group have been prepared on the assumption that the accounting policies in respect of investment properties of Sincere Property and the CDL Group are aligned. The alignment of accounting policies in respect of investment properties held under Sincere Property to a cost model would result in depreciation being accounted for these investment properties. Following the exercise of the Call Option, the CDL Group's interest in HCP would increase and accordingly, a higher share of such depreciation would be accounted. This would result in a marginal reduction in the pro forma earnings of the CDL Group. However, CDL notes that almost all real estate companies in China as well as Singapore (with the exception of CDL) account for investment properties at fair value, and not at cost.

Notes:

- (1) Calculated after deducting preference dividend of S\$12,904,000 paid on FY2019 and based on the weighted average number of CDL Shares of 906,901,330.
- (2) Calculated based on the weighted average number of CDL Shares of 951,900,228, adjusted for potential ordinary shares issuable under preference shares of CDL as at 31 December 2019.
- (3) The substantial increase in basic earnings per CDL Share and diluted earnings per CDL Share is due to the recognition of S\$867 million of negative goodwill pursuant to the New Sincere Transaction (with or without the exercise of the Call Option), which would enhance the financial results of the CDL Group for FY2019 and the equity base of the CDL Group.

3.3 NTA and NAV. For illustrative purposes only and assuming that the New Sincere Transaction had been completed on 31 December 2019, being the end of FY2019, the pro forma financial effects of the transaction on the NTA and the NAV per CDL Share are as follows:

	Before New Sincere Transaction	After New Sincere Transaction	
		Relevant HCP Interest Completion	Relevant HCP Interest Completion and Exercise of Call Option
Net Assets (S\$ million)	10,520	11,331	11,326 ⁽¹⁾
Less: intangibles (S\$ million)	(23)	(23)	(23)
NTA (S\$ million)	10,497	11,308	11,303 ⁽¹⁾
Number of CDL Shares	906,901,330	906,901,330	906,901,330
NTA per CDL Share (S\$)	11.57	12.47	12.46 ⁽¹⁾
NAV per CDL Share (S\$)	11.60	12.49	12.49

Note:

- (1) The NTA and NAV took into account the elimination of the gain recorded by Sincere Property from the sale of a property to CDL Group in end 2019 (as disclosed in **Paragraph 3.1(v)** above). This resulted in a marginal decline in NTA per CDL Share.

- 3.4 **Net Gearing Ratio.** For illustrative purposes only and assuming that the New Sincere Transaction (but before exercise of the Call Option) had been completed on 31 December 2019, being the end of FY2019, the pro forma financial effects of the transaction on the net gearing ratio of the CDL Group are as follows:

	Before New Sincere Transaction	After New Sincere Transaction*
Net Borrowings (S\$ million)	6,851	7,168
Net Gearing Ratio (%)⁽¹⁾	61	59
Net Gearing Ratio (including fair value of investment properties) (%)⁽²⁾	43	43

* The pro forma financial effects of the New Sincere Transaction on the net gearing ratio above have been prepared assuming the Relevant HCP Interest Completion but before the exercise of the Call Option.

Notes:

- (1) Net gearing ratio derived from the CDL Group FY2019 Financial Statements, of which the CDL Group accounts for all its development properties, hotel portfolio as well as investment properties at cost less accumulated depreciation, impairment losses and foreseeable losses.
- (2) Net gearing ratio derived from the CDL Group FY2019 Financial Statements, of which the CDL Group accounts for all its development properties, hotel portfolio as well as investment properties at cost less accumulated depreciation, impairment losses and foreseeable losses, but adjusted to reflect the fair values of investment properties. However, CDL notes that almost all real estate companies in China, as well as Singapore (with the exception of CDL) account for investment properties at fair value, and not at cost.

4. None of the Directors or the controlling shareholders of CDL has any interest, direct or indirect, in the New Sincere Transaction.

By Order of the Board

Shufen Loh @ Catherine Shufen Loh
Enid Ling Peek Fong
Company Secretaries
15 April 2020

Further information on the investments can be found in the Company's news release titled "CDL to acquire 51.01% joint controlling stake in Sincere Property Group for RMB4.39 billion in historic transformational deal" issued on 15 April 2020, a copy of which is attached to this announcement.