

STRICTLY CONFIDENTIAL – DO NOT FORWARD

THIS SUPPLEMENTAL OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL TO, OR A SOLICITATION OF AN OFFER TO BUY FROM, ANY PERSON IN ANY JURISDICTION TO WHOM IT IS UNLAWFUL TO DO SO.

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

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

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

Prohibition of sales to EEA retail investors – The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(11) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

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

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

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

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

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

天譽國際控股有限公司
Skyfame International Holdings Limited

(incorporated in the British Virgin Islands with limited liability)

US\$100,000,000

13.0% SENIOR NOTES DUE 2023

(to be consolidated and form a single class with the US\$80,000,000 13.0% Senior Notes due 2023 issued on December 16, 2020 and the US\$112,000,000 13.0% Senior Notes due 2023 issued on May 24, 2021) unconditionally and irrevocably guaranteed by



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00059)

Issue Price: 99.99% plus accrued interest from (and including) December 16, 2020 to (but excluding) June 7, 2021

Skyfame International Holdings Limited (the "Issuer") is issuing 13.0% senior notes due 2023 in the aggregate principal amount of US\$100,000,000 (the "New Notes"). The New Notes will be consolidated and form a single class with the 13.0% Senior Notes due 2023 in the aggregate principal amount of US\$80,000,000 issued by the Company on December 16, 2020 and the 13.0% Senior Notes due 2023 in the aggregate principal amount of US\$112,000,000 issued by the Company on May 24, 2021 (collectively, the "Original Notes" and, together with the New Notes, the "Notes"). The New Notes will bear interest from December 16, 2020 at the rate of 13.0% per annum, payable semi-annually in arrears on June 16 and December 16 of each year, commencing June 16, 2021. The Notes will mature on December 16, 2023. The New Notes have the same terms and conditions as the Original Notes in all respects except for issue date and issue price. The New Notes will be immediately fungible with the Original Notes upon issuance. Upon completion of this offering, the aggregate principal amount of the outstanding Notes will be US\$292,000,000.

The Notes are unconditionally and irrevocably guaranteed by Skyfame Realty (Holdings) Limited (the "Parent Guarantor" or the "Company"). The Issuer is a wholly owned subsidiary of the Company. We refer to the guarantee by the Parent Guarantor as the Parent Guarantee.

This supplemental offering memorandum incorporates the information contained in the attached original offering memorandum dated May 18, 2021 (the "Original Offering Memorandum") and should be read in conjunction with the Original Offering Memorandum. To the extent that there is any inconsistency between any information in this supplemental offering memorandum and the Original Offering Memorandum, the information in this supplemental offering memorandum shall prevail. Terms not defined in this supplemental offering memorandum have the meanings given to them in the Original Offering Memorandum.

The Notes will be (1) general obligations of the Issuer, (2) senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes, (3) at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (4) guaranteed by the Company on a senior basis, subject to the limitations described under "Description of the Notes — The Parent Guarantee" and in "Risk Factors — Risks Relating to the Notes and the Parent Guarantee", (5) effectively subordinated to secured obligations (if any) of the Issuer to the extent of the value of the assets serving as security therefor and (6) effectively subordinated to all existing and future obligations of any subsidiaries of the Issuer.

At any time and from time to time prior to December 16, 2023, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 113.0% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, subject to certain conditions. In addition, we may at our option redeem the Notes, in whole but not in part, at any time and from time to time prior to December 16, 2023, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a premium as set forth in this offering memorandum, and accrued and unpaid interest, if any, to (but not including) the redemption date. We shall, at the option of any holder of the Notes, repurchase all of the Notes held by such holder on December 16, 2022 at 100.0% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) December 16, 2022.

Upon the occurrence of a Change of Control Triggering Event (as defined in the section entitled "Description of the Notes"), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but excluding the date of repurchase. Subject to certain exceptions, we may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to but excluding the redemption date, if the Issuer would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws.

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 112 in the Original Offering Memorandum.

Investing in the New Notes involves risks. See "Risk Factors" beginning on page 11 in the Original Offering Memorandum.

The Original Notes are listed and quoted on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Company or the Notes. 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 Original Notes are rated B- by Fitch Ratings Ltd ("Fitch") and we do not expect the ratings will change as a result of the issuance of the New Notes. The rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning agency. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "NDRC Notice") promulgated by National Development and Reform Commission (the "NDRC") of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the New Notes with the NDRC and obtained a certificate from the NDRC on November 2, 2020 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the New Notes to be reported to the NDRC within ten PRC working days after the issue date of the New Notes.

It is expected that the delivery of the New Notes will be made on or about June 7, 2021 through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CCB International

CMB International

Joint Bookrunners and Joint Lead Managers

Guotai Junan
International

CRIC Securities

Silk Road
International

Kaisa Financial
Group Company
Limited

Golden Rich

The date of this supplemental offering memorandum is June 2, 2021

TABLE OF CONTENTS

SUPPLEMENTAL OFFERING MEMORANDUM

| | <u>Page</u> | | <u>Page</u> |
|-----------------------------------|-------------|---------------------------------|-------------|
| SUMMARY OF THE OFFERING | W-1 | PLAN OF DISTRIBUTION | W-5 |
| USE OF PROCEEDS | W-3 | TRANSFER RESTRICTIONS | W-11 |
| CAPITALIZATION AND | | RATINGS | W-13 |
| INDEBTEDNESS | W-4 | LEGAL MATTERS | W-13 |
| | | GENERAL INFORMATION | W-14 |

ORIGINAL OFFERING MEMORANDUM

| | <u>Page</u> | | <u>Page</u> |
|-------------------------------------|-------------|------------------------------------|-------------|
| SUMMARY | 1 | PRINCIPAL SHAREHOLDERS | 102 |
| RISK FACTORS | 11 | RELATED PARTY TRANSACTIONS . . | 103 |
| USE OF PROCEEDS | 42 | DESCRIPTION OF OTHER | |
| EXCHANGE RATE INFORMATION . . | 43 | MATERIAL INDEBTEDNESS | 104 |
| CAPITALIZATION AND | | DESCRIPTION OF THE NOTES | 112 |
| INDEBTEDNESS | 46 | TAXATION | 175 |
| SELECTED CONSOLIDATED | | PLAN OF DISTRIBUTION | 178 |
| FINANCIAL AND OTHER DATA . . . | 47 | TRANSFER RESTRICTIONS | 184 |
| RESULT OF OPERATIONS | 49 | RATINGS | 186 |
| CORPORATE STRUCTURE | 53 | LEGAL MATTERS | 186 |
| BUSINESS | 54 | INDEPENDENT ACCOUNTANTS | 186 |
| DESCRIPTION OF THE ISSUER | 72 | GENERAL INFORMATION | 187 |
| REGULATORY OVERVIEW | 73 | INDEX TO CONSOLIDATED | |
| DIRECTORS AND SENIOR | | FINANCIAL INFORMATION | F-1 |
| MANAGEMENT | 97 | | |

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

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

This supplemental offering memorandum is not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129 as implemented in the Member States of the European Economic Area (the “EEA”).

Prohibition of sales to EEA retail investors – The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(11) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

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

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

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

No representation or warranty, express or implied, is made by CCB International Capital Limited, CMB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, CRIC Securities Company Limited, Silk Road International Capital Limited, Kaisa Financial Group Company Limited and Golden Rich Securities Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee”), the Agents (as defined under Description of the Notes) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this supplemental offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

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

THE NEW NOTES AND THE PARENT GUARANTEE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER UNITED STATES REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE ISSUANCE OF THE NEW NOTES OR THE ACCURACY OR ADEQUACY OF THIS SUPPLEMENTAL OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

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

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

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

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

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

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

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

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

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

SUMMARY OF THE OFFERING

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

| | |
|---|--|
| Issuer..... | Skyfame International Holdings Limited (天譽國際控股有限公司) |
| Parent Guarantor | Skyfame Realty (Holdings) Limited |
| New Notes Offered..... | US\$100,000,000 aggregate principal amount of 13.0% Senior Notes due 2023 (the “New Notes”) to be consolidated and form a single class with the US\$80,000,000 in aggregate principal amount of 13.0% Senior Notes due 2023 and the US\$112,000,000 in aggregate principal amount of 13.0% Senior Notes due 2023 (collectively, the “Original Notes” and, together with the New Notes, the “Notes”). The terms for the New Notes are the same as those for the Original Notes in all respects except for the issue date and issue price. The New Notes will be immediately fungible with the Original Notes upon issuance. |
| Issue Price..... | 99.99% of the principal amount of the New Notes, plus accrued interest from (and including) December 16, 2020 to (but excluding) June 7, 2021. |
| Maturity Date | December 16, 2023. |
| Interest | The Notes will bear interest from and including December 16, 2020 at the rate of 13.0% per annum, payable semi-annually in arrears. |
| Interest Payment Dates..... | June 16 and December 16 of each year, commencing June 16, 2021. |
| Use of Proceeds..... | We intend to use the gross proceeds for refinancing certain of our existing offshore indebtedness. |
| Form, Denomination and Registration..... | The New Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with a common depository and registered in the name of the common depository or its nominee. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream. |
| Delivery of the New Notes..... | The Issuer expects to make delivery of the New Notes, against payment in same-day funds on or about June 7, 2021, which the Issuer 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 New Notes may be affected by the “T+3” settlement. See “Plan of Distribution.” |

Listing The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. 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 New Notes are expected to be rated “B-” by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

| Securities Codes | ISIN | Common Code |
|-------------------------------|--------------|--------------------|
| | XS2272702338 | 227270233 |

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

USE OF PROCEEDS

The gross proceeds from this issuance of the New Notes (inclusive of accrued interest from (and including) December 16, 2020 to (but excluding) June 7, 2021), and before deducting the underwriting fees, commissions and other estimated expenses payable by us will be approximately US\$106.1 million, which we plan to use for refinancing certain of our existing offshore indebtedness.

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2020 on an actual basis and on an adjusted basis after giving effect to (i) the issuance of the US\$112 million in aggregate principal amount of the Original Notes issued on May 24, 2021, and (ii) the issuance of the New Notes without deducting the underwriting fees, commissions and other estimated expenses payable by us (inclusive of accrued interest from (and including) December 16, 2020 to (but excluding) June 7, 2021) in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this offering memorandum.

| | As of December 31, 2020 | | | |
|--|-------------------------|---------------------|--------------------|---------------------|
| | Actual | | As adjusted | |
| | RMB | US\$ (unaudited) | RMB (unaudited) | US\$ (unaudited) |
| | (in thousands) | | | |
| Cash and cash equivalents⁽¹⁾ | 2,160,842 | 331,164 | 3,625,901 | 555,694 |
| Short-term borrowings⁽²⁾ | | | | |
| Bank and other borrowings | | | | |
| – due within one year..... | 2,653,495 | 406,666 | 2,653,495 | 406,666 |
| Total short-term borrowings | 2,653,495 | 406,666 | 2,653,495 | 406,666 |
| Long-term borrowings⁽²⁾ | | | | |
| Bank and other borrowings | | | | |
| – due after one year | 6,037,941 | 925,355 | 6,037,941 | 925,355 |
| Original Notes ⁽³⁾ | – | – | 772,332 | 118,365 |
| New Notes to be issued..... | – | – | 692,727 | 106,165 |
| Total long-term borrowings | 6,037,941 | 925,355 | 7,503,000 | 1,149,885 |
| Total equity | 4,794,758 | 734,829 | 4,794,758 | 734,829 |
| Total capitalization⁽⁴⁾ | 10,832,699 | 1,660,184 | 12,297,758 | 1,884,714 |

Notes:

- (1) Cash and cash equivalents include pledged deposits of approximately RMB192 million (US\$29 million) as of December 31, 2020.
- (2) Subsequent to December 31, 2020, we have, in the ordinary course of business, entered into additional financing arrangements or placing agreements to finance our property developments, repay existing indebtedness and for general corporate purposes. These additional borrowings are not reflected in the table above. See “Description of Other Material Indebtedness.”
- (3) Represents the Original Notes issued on May 24, 2021.
- (4) Total capitalization represents total long-term borrowings plus total equity.

Subsequent to December 31, 2020, we incurred additional indebtedness (including bank borrowings, offshore bond offerings, and trust loans) and contingent liabilities. Such issuance of bond is not reflected in the table above. See “Business—Recent Developments.” In our ordinary course of operations, including upon or after the completion of this offering, we will continue to incur additional debt, including RMB denominated borrowings or other debt securities. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2020.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this supplemental offering memorandum between Issuer, the Company, CCB International Capital Limited, CMB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, CRIC Securities Company Limited, Silk Road International Capital Limited, Kaisa Financial Group Company Limited and Golden Rich Securities Limited as the Initial Purchasers, we have agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally and not jointly agreed to purchase the principal amount of the New Notes set forth opposite their respective names below.

| Initial Purchasers | Principal Amount of the New Notes |
|---|--|
| CCB International Capital Limited | US\$ 25,000,000 |
| CMB International Capital Limited | US\$ 25,000,000 |
| Guotai Junan Securities (Hong Kong) Limited | US\$ 10,000,000 |
| CRIC Securities Company Limited | US\$ 10,000,000 |
| Silk Road International Capital Limited | US\$ 10,000,000 |
| Kaisa Financial Group Company Limited | US\$ 10,000,000 |
| Golden Rich Securities Limited | US\$ 10,000,000 |
| Total | US\$100,000,000 |

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

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

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

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

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

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

The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. However, we cannot assure you that we will ultimately obtain such listing or that we will be able to maintain such listing or that the prices at which the New Notes will sell in the market after this offering will not be lower than the initial offering price. Accordingly, we cannot assure you that a liquid trading market will develop for the New Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable. The Initial Purchasers have advised us that it currently intends to make a market in the New Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the New Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the New Notes.

We expect to deliver the New Notes against payment for the New Notes on or about the date specified in the last paragraph of the cover page of this supplemental offering memorandum, which will be the third business day following the date of the pricing of the New Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days, purchasers who wish to trade the New Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the New Notes initially will settle in T+3, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the New Notes who wish to trade the New Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

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

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

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

SELLING RESTRICTIONS

General

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

United States

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

European Economic Area

This supplemental offering memorandum has been prepared on the basis that any offer of the New Notes in any Member State of the European Economic Area will be made pursuant to an exemption under Regulation (EU) 2017/1129 (the “Prospectus Regulation”) from the obligation to publish a prospectus for offers of the New Notes. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes in circumstances in which an obligation arises for the Issuer or the Initial Purchasers to publish a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the New Notes contemplated in this supplemental offering memorandum.

The Initial Purchasers have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any New Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or
- (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

This supplemental offering memorandum has been prepared on the basis that any offer of the New Notes in the United Kingdom (“UK”) will be made pursuant to an exemption under the FSMA from the requirement to publish a prospectus for offers of the New Notes. The expression FSMA means the Financial Services and Markets Act 2000 (as amended). Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes in circumstances in which an obligation arises for the Issuer or the Initial Purchasers to publish a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the New Notes contemplated in this supplemental offering memorandum.

The Initial Purchasers have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any New Notes to any retail investor in the United Kingdom. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

This supplemental offering memorandum is for distribution only to persons who (i) fall within Article 43(2)(b) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order, (iii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Financial Promotion Order, (iv) are outside the United Kingdom, or (v) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services

and Markets Act 2000 (as amended, the “FSMA”)) in connection with the issue or sale of any New Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This supplemental offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this supplemental offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Each of the Initial Purchasers has represented, warranted and agreed that:

- it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the “FSMA) received by it in connection with the issue or sale of any New Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

Hong Kong

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

Japan

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

Singapore

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

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

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

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

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

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

PRC

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

Italy

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

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

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

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

Bermuda

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

British Virgin Islands

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

TRANSFER RESTRICTIONS

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

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

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

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

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

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

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

RATINGS

The Original Notes are rated B- by Fitch and we do not expect the ratings will change as a result of the issuance of the New Notes. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a corporate family rating of B-(Negative) by Fitch. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

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

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in Bermuda, British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a resolution of our Board of Directors dated May 17, 2021.

LITIGATION

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the New Notes.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2020 that is material in the context of the issue of the New Notes.

DOCUMENTS AVAILABLE

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

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

CLEARING SYSTEM AND SETTLEMENT

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

| ISIN | Common Code |
|--------------|-------------|
| XS2272702338 | 227270233 |

Only Notes evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE NEW NOTES

The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the subsidiaries or associated companies of the Issuer, the Company, or the Notes. 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 definitive notes, the Issuer will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for definitive notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

OUR REGISTERED AND PRINCIPAL OFFICES

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

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

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

OUR LEGAL ADVISERS

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

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

as to Bermuda law
Conyers Dill & Pearman
29th Floor,
One Exchange Square
8 Connaught Place
Central, Hong Kong

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

LEGAL ADVISERS TO THE INITIAL PURCHASERS

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

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

TRUSTEE

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

PAYING AGENT, REGISTRAR AND TRANSFER AGENT

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

INDEPENDENT AUDITORS

For the year ended 31 December 2019 and 2020

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

SINGAPORE LISTING AGENT

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

STRICTLY CONFIDENTIAL – DO NOT FORWARD

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 DO SO.

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

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

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

Prohibition of sales to EEA retail investors – The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(11) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

The attached offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of CCB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, YONXI Securities Limited, Valuable Capital Limited, CMB International Capital Limited, Seazen Resources Securities Limited, Glory Sun Securities Limited, Continental Securities Limited and Guolian Securities International Capital Co., Limited (the “Initial Purchasers”) or any person who controls them or any of their respective directors, employees representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

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

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

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

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

天譽國際控股有限公司
Skyfame International Holdings Limited

(incorporated in the British Virgin Islands with limited liability)

US\$112,000,000

13.0% SENIOR NOTES DUE 2023

(to be consolidated and form a single class with the US\$80,000,000 13.0% Senior Notes due 2023 issued on December 16, 2020) unconditionally and irrevocably guaranteed by



天譽置業 (控股) 有限公司

SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00059)

Issue Price: 99.978% plus accrued interest from (and including) December 16, 2020 to (but excluding) May 24, 2021

Skyfame International Holdings Limited (the "Issuer") is issuing 13.0% senior notes due 2023 in the aggregate principal amount of US\$112,000,000 (the "New Notes"). The New Notes will be consolidated and form a single class with the 13.0% Senior Notes due 2023 in the aggregate principal amount of US\$80,000,000 issued by the Company on December 16, 2020 (the "Original Notes" and, together with the New Notes, the "Notes"). The New Notes will bear interest from December 16, 2020 at the rate of 13.0% per annum, payable semi-annually in arrears on June 16 and December 16 of each year, commencing June 16, 2021. The Notes will mature on December 16, 2023. The New Notes have the same terms and conditions as the Original Notes in all respects except for issue date and issue price. The New Notes will be immediately fungible with the Original Notes upon issuance. Upon completion of this offering, the aggregate principal amount of the outstanding Notes will be US\$192,000,000.

The Notes are unconditionally and irrevocably guaranteed by Skyfame Realty (Holdings) Limited (the "Parent Guarantor" or the "Company"). The Issuer is a wholly owned subsidiary of the Company. We refer to the guarantee by the Parent Guarantor as the Parent Guarantee.

The Notes will be (1) general obligations of the Issuer, (2) senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes, (3) at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (4) guaranteed by the Company on a senior basis, subject to the limitations described under "Description of the Notes — The Parent Guarantee" and in "Risk Factors — Risks Relating to the Notes and the Parent Guarantee", (5) effectively subordinated to secured obligations (if any) of the Issuer to the extent of the value of the assets serving as security therefor and (6) effectively subordinated to all existing and future obligations of any subsidiaries of the Issuer.

At any time and from time to time prior to December 16, 2023, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 113.0% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, subject to certain conditions. In addition, we may at our option redeem the Notes, in whole but not in part, at any time and from time to time prior to December 16, 2023, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a premium as set forth in this offering memorandum, and accrued and unpaid interest, if any, to (but not including) the redemption date. We shall, at the option of any holder of the Notes, repurchase all of the Notes held by such holder on December 16, 2022 at 100.0% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) December 16, 2022.

Upon the occurrence of a Change of Control Triggering Event (as defined in the section entitled "Description of the Notes"), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but excluding the date of repurchase. Subject to certain exceptions, we may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to but excluding the redemption date, if the Issuer would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws.

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 112.

Investing in the New Notes involves risks. See "Risk Factors" beginning on page 11.

The Original Notes are listed and quoted on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Company or the Notes. 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 Original Notes are rated B- by Fitch Ratings Ltd ("Fitch") and we do not expect the ratings will change as a result of the issuance of the New Notes. The rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning agency. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "NDRC Notice") promulgated by National Development and Reform Commission (the "NDRC") of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the New Notes with the NDRC and obtained a certificate from the NDRC on November 2, 2020 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the New Notes to be reported to the NDRC within ten PRC working days after the issue date of the New Notes.

It is expected that the delivery of the New Notes will be made on or about May 24, 2021 through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CCB International

Guotai Junan International

Joint Bookrunners and Joint Lead Managers

YONXI Securities

Valuable Capital

CMB International

Seazen Resources

Glory Sun Financial

Continental Securities Limited

Guolian Securities International

The date of this offering memorandum is May 18, 2021

TABLE OF CONTENTS

| | <u>Page</u> | | <u>Page</u> |
|---------------------------------|-------------|--------------------------------|-------------|
| SUMMARY | 1 | PRINCIPAL SHAREHOLDERS | 102 |
| RISK FACTORS | 11 | RELATED PARTY TRANSACTIONS .. | 103 |
| USE OF PROCEEDS | 42 | DESCRIPTION OF OTHER | |
| EXCHANGE RATE INFORMATION .. | 43 | MATERIAL INDEBTEDNESS | 104 |
| CAPITALIZATION AND | | DESCRIPTION OF THE NOTES | 112 |
| INDEBTEDNESS | 46 | TAXATION | 175 |
| SELECTED CONSOLIDATED | | PLAN OF DISTRIBUTION | 178 |
| FINANCIAL AND OTHER DATA ... | 47 | TRANSFER RESTRICTIONS | 184 |
| RESULT OF OPERATIONS | 49 | RATINGS | 186 |
| CORPORATE STRUCTURE | 53 | LEGAL MATTERS | 186 |
| BUSINESS | 54 | INDEPENDENT ACCOUNTANTS | 186 |
| DESCRIPTION OF THE ISSUER | 72 | GENERAL INFORMATION | 187 |
| REGULATORY OVERVIEW | 73 | INDEX TO CONSOLIDATED | |
| DIRECTORS AND SENIOR | | FINANCIAL INFORMATION | F-1 |
| MANAGEMENT | 97 | | |

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

This 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 as implemented in the Member States of the European Economic Area (the “EEA”).

Prohibition of sales to EEA retail investors – The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(11) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

IN CONNECTION WITH THIS OFFERING, ANY OF THE INITIAL PURCHASERS APPOINTED AND ACTING IN THE CAPACITY AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NEW NOTES IN THE OPEN MARKET, PROVIDED THAT CHINA CITIC BANK INTERNATIONAL LIMITED SHALL NOT BE ACTING AS THE STABILIZING MANAGER. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NEW NOTES. AS A RESULT, THE PRICE OF THE NEW NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE

OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE INITIAL PURCHASERS, AND NOT FOR US OR ON OUR BEHALF.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the New Notes. You should read this offering memorandum before making a decision whether to purchase the New 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 New Notes. By purchasing the New Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by CCB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, YONXI Securities Limited, Valuable Capital Limited, CMB International Capital Limited, Seazen Resources Securities Limited, Glory Sun Securities Limited, Continental Securities Limited and Guolian Securities International Capital Co., Limited (the “Initial Purchasers”), Citicorp International Limited (the “Trustee”), the Agents (as defined under Description of the Notes) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

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

THE NEW NOTES AND THE PARENT GUARANTEE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER UNITED STATES REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE ISSUANCE OF THE NEW NOTES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

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

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

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

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

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

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

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

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

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

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY AND FINANCIAL INFORMATION PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms the “Company,” the “Group,” “we,” “us,” “our” and words of similar import, we are referring to Skyfame Realty (Holdings) Limited itself or to Skyfame Realty (Holdings) Limited and its consolidated subsidiaries, as the context requires.

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

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

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

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

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

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

“2021 Notes” means the 13.0% senior notes due 2021 issued by the Company on July 21, 2020.

“2022 Notes” means the 13.0% senior notes due 2022 issued by the Company on July 8, 2019, September 9, 2019 and November 14, 2019.

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

“CAGR” means compound annual growth rate.

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

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

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

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

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

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

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

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

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

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

“Southeastern Region” refers to the area covering Nanning, Guilin, Xuzhou and Nanchang.

“Southwestern Region” refers to the area covering Guiyang, Kunming and Chongqing.

“sq.m.” means square meter(s).

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

SUMMARY

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

OVERVIEW

We are a real estate developer focusing on high-quality commercial and residential properties and specializing in the development of youth community projects with young families as target customers in China. We are headquartered in Guangzhou, Guangdong province and have property development projects in a number of cities in the Greater Bay Area, the Southwestern Region and Southeastern Region of China, such as Shenzhen, Guangzhou, Zhongshan, Nanning, Guilin, Xuzhou, Nanchang, Kunming, Chongqing and Guiyang. We have four business segments, namely, property development, property investment, property management and commercial operations in youth community development projects. Among these segments, property development has contributed a substantial portion of our revenue for the past three years. Since 2016, we have been primarily focusing on the development of properties targeting young families. These properties are equipped with smart living and recreational facilities and are built in relatively smaller unit size, and thus, in affordable price. In 2020, we were ranked 159th in the list of “2019 China Real Estate Development Enterprises Top 500” released by the China Real Estate Association and the China Real Estate Evaluation Center of Shanghai Yiju Real Estate Research Institute.

As of December 31, 2020, we had a total of 18 property projects in mainland China at various stages of development, of which four have been completed and the others under construction or for imminent development, together with the joint venture project we participated in and other projects held by third parties that we are acting as project manager, all in all, we are holding interests in 27 projects, which were mainly located in 17 cities with a total site area of approximately 4,200,000 sq.m. and an aggregate actual/planned GFA of approximately 13,300,000 sq.m.. As of the same date, we had an aggregate undelivered saleable (include but not limited to unsold) GFA of approximately 4,710,000 sq.m., for our 18 property projects consisting of approximately 117,000 sq.m. of GFA available for sale of completed properties, approximately 4,471,000 sq.m. of planned GFA under development, 101,000 sq.m. of estimated GFA held for future development and approximately 21,000 sq.m. of GFA leasable and held for own use. As of December 31, 2020, we have delivered completed saleable GFA of approximately 2,484,000 sq.m. to our customers.

We have received numerous awards and recognitions for our property projects and business operations.

In 2020, we were selected by Sohu Focus (Guangzhou) (搜狐焦點(廣州)) and Focus Finance Organization (焦點財經組織) as a “Brand-value Property Enterprise in the Guangdong-Hong Kong-Macau Greater Bay Area of China” (中國粵港澳大灣區房地產品牌價值企業) and were given the title of “Influential Property Brand” (地產影響力品牌) in the property project selection of the 22nd Property Oscar (第二十二屆樓市奧斯卡樓盤評選活動) by the Nanfang Daily (《南方日報》). We received the awards of “2020 Top 95 China Real Estate Listed Companies” (2020中國上市房企百強TOP 95), the “2020 Top 10 China Listed Real Estate Enterprises Risk Management Control Ability” (2020中國上市房企風險控制能力十強), the “2020 Top 20 China Real Estate Enterprises in Brand Value Growth” (2020中國房地產企業品牌價值成長性二十強), the “2020 Top 10 China Real Estate Enterprises Value Creation Ability” (2020中國房地產企業價值創造能力十強), the “2020 Top 100 China Real Estate Enterprises in Overall Strength” (2020中國房企綜合實力TOP 100), and the “2020 Top 100 China Real Estate Enterprises in Brand Value” (2020中國房企品牌價值TOP 100) by EH Consulting (億翰智庫). Our subsidiary, Guangzhou Tianyu Property Management Company Limited of was awarded the “2020 Top 100 Property Companies in China in terms of Overall Strength” (2020中國物業企業綜合實力TOP100) which was jointly presented by EH Consulting (億翰智庫) and Jiaye Jiaye (嘉和家業). We also received the award of the “Quality China Real Estate Developer Award” (優質中國房地產企業大獎) and the “2020 ListCo Excellence Award” (2020年上市公司年度大獎) of the Hong Kong Institute of Financial Analysts and

Professional Commentators Limited for third consecutive year. We won the “Outstanding Property Enterprise Award” (傑出房地產企業獎) in the 8th “Top 100 Hong Kong Listed Companies” organized by the Top 100 Hong Kong Listed Companies Research Centre and co-organized by Finet and Atlantis Investment Management. In addition, our Xuzhou Skyfame Elegance Garden was awarded the “Most Anticipated Property Project in 2020” (2020年最值得期待樓盤) by Xuzhou Sina Leju and the “2020 Xuzhou Broadcasting and Television Commentator of Property Industry” by Xuzhou Radio and Television Media Group. Besides, Xuzhou Skyfame Elegance Garden was jointly elected as the “Xuzhou Large and Grand Model House • 2020 Recommended Property Project” (徐州大美樣板房•2020年推薦樓盤) by Jiangsu Real Estate of China News Network and Xuzhou Youtao Real Estate Studio and our Guangzhou Skyfame Byland was selected as the “Quality Property with Craftsmanship of the Year” (年度匠心品質樓盤) by Sohu Focus (Guangzhou) (搜狐焦點(廣州)) and Focus Finance Organization (焦點財經組織). Besides, Guangzhou Skyfame Byland gained the dual titles of “Star Property Project of Guangzhou and Healthy and Livable Community” (廣州明星樓盤、健康宜居社區) in the property project selection of the 22nd Property Oscar (第二十二屆樓市奧斯卡樓盤評選活動) of the Nanfang Daily (《南方日報》). In the results of the first 2020 CIOC Real Estate Digital Power in China Survey (CIOC中國地產數字力測評) jointly announced by E-House CRIC (易居克而瑞) and the National Real Estate CIO Alliance (全國房地產CIO聯盟), Guangzhou Skyfame Byland was assessed as the “2020 Real Estate Digital Power in China Smart Community Benchmark Project” (2020年度中國地產數字力智慧社區標桿項目).

In 2018, 2019 and 2020, we recorded revenue of RMB6,191.8 million, RMB6,591.0 million and RMB7,702.2 million (US\$1,180.4 million), respectively. We recorded a net profit attributable to owners of RMB751.3 million, RMB792.3 million and RMB950.9 million (US\$145.7 million), in 2018, 2019 and 2020, respectively.

COMPETITIVE STRENGTHS

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

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

BUSINESS STRATEGIES

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

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

RECENT DEVELOPMENTS

Issuance of Trillion Thrive Bonds

On February 3, 2021, our wholly-owned subsidiary, Rich Apex Limited, as the issuer, and the Company, as the guarantor, entered into a subscription agreement (the “**Subscription Agreement**”) with Trillion Thrive Limited for the issuance and subscription of US\$20,000,000 14.5% senior guaranteed bonds due 2022 (the “**Trillion Thrive Bonds**”).

Proposed Spin-off and Separate Listing of Skyfame Inno Youth Smart Link Services Limited on the Hong Kong Stock Exchange

On March 25, 2021, our subsidiary Skyfame Inno Youth Smart Link Services Limited (天譽青創智聯服務有限公司) (“**Inno Youth Smart Link**”) through its appointed joint sponsors Zhongtai International Capital Limited and China Everbright Capital Limited, submitted a listing application to the Hong Kong Stock Exchange. Inno Youth Smart Link primarily engages in the provision of residential and non-residential property management services and value-added services.

Entering into Syndicated Loan Agreement

On May 8, 2021, our indirectly owned subsidiary, as the borrower, entered into a syndicated loan agreement with sub-branches of Agricultural Bank of China Co., Ltd and Bank of China Limited, as lenders. Under the syndicated loan agreement, the lenders have agreed to provide syndicated credit facility not exceeding RMB8.279 billion with interest at approximately 7% per annum.

GENERAL INFORMATION

The Issuer was incorporated in British Virgin Islands on March 8, 2019 as an exempted company with limited liability under the laws of British Virgin Islands. The Company was incorporated in Bermuda on October 19, 1993 as an exempted company with limited liability under the laws of Bermuda. Its shares have been listed on the SEHK since November 1993, under the stock code 00059. The Company’s registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company’s head office and principal place of business in the PRC is 32nd to 33rd Floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC. Our principal place of business in Hong Kong is at Unit 1401, 14th floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong. The Company’s website is www.skyfame.com.cn Information contained on our website does not constitute a part of this offering memorandum.

THE OFFERING

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

| | |
|-----------------------------|--|
| Issuer..... | Skyfame International Holdings Limited (天譽國際控股有限公司) |
| Parent Guarantor | Skyfame Realty (Holdings) Limited |
| New Notes Offered..... | US\$112,000,000 aggregate principal amount of 13.0% Senior Notes due 2023 (the “New Notes”) to be consolidated and form a single class with the US\$80,000,000 in aggregate principal amount of 13.0% Senior Notes due 2023 (the “Original Notes” and, together with the New Notes, the “Notes”). The terms for the New Notes are the same as those for the Original Notes in all respects except for the issue date and issue price. The New Notes will be immediately fungible with the Original Notes upon issuance. |
| Issue Price..... | 99.978% of the principal amount of the New Notes, plus accrued interest from (and including) December 16, 2020 to (but excluding) May 24, 2021. |
| Maturity Date | December 16, 2023. |
| Interest | The Notes will bear interest from and including December 16, 2020 at the rate of 13.0% per annum, payable semi-annually in arrears. |
| Interest Payment Dates..... | June 16 and December 16 of each year, commencing June 16, 2021. |
| Ranking of the Notes | The Notes are: <ul style="list-style-type: none">• general obligations of the Issuer;• senior in right of payment to any existing and future obligations of the Issuer 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 Issuer (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Company on a senior basis, subject to the limitations described under “Description of the Notes — The Parent Guarantee” and in “Risk Factors — Risks Relating to the Notes and the Parent Guarantee”;• effectively subordinated to other secured obligations (if any) of the Issuer to the extent of the value of the assets serving as security therefor; and• effectively subordinated to all existing and future obligations of any subsidiaries of the Issuer. |

| | |
|---|---|
| Parent Guarantee | The Company will guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. |
| Ranking of the Parent Guarantee..... | <p>The Parent Guarantee will be:</p> <ul style="list-style-type: none"> • a general obligation of the Company; • senior in right of payment to all future obligations of the Company expressly subordinated in right of payment to the Parent Guarantee; • 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); • effectively subordinated to other secured obligations of the Company to the extent of the value of the assets serving as security therefor; and • effectively subordinated to all existing and future obligations of the Company's Subsidiaries. |
| Use of Proceeds..... | We intend to use the gross proceeds for refinancing certain of our existing offshore indebtedness. |
| Optional Redemption..... | <p>At any time and from time to time prior to December 16, 2023, the Issuer may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in "Description of the Notes — Optional Redemption."</p> <p>At any time and from time to time prior to December 16, 2023, the Issuer may redeem up to 35% of the aggregate principal amount of the Notes then outstanding with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 113.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remain outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.</p> |
| Repurchase of Notes Upon a Change of Control Triggering Event | Not later than 30 days following a Change of Control Triggering Event, the Issuer or the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101.0% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date. See "Description of the Notes — Repurchase of Notes Upon a Change of Control Triggering Event." |

| | |
|---|--|
| Additional Amounts..... | All payments of principal of, and premium (if any) and interest on the Notes or the Parent Guarantee 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 Issuer, the Company or a Surviving Person (as defined under “Description of the Notes — Consolidation, Merger and Sale of Assets”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, the PRC (each, as applicable, a “Relevant Jurisdiction”), or any jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. Subject to certain exceptions, in the event that any such withholding or deduction is so required, the Issuer, the Company or a Surviving Person will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required. |
| Repurchase at the Option of Holders of the Notes..... | The Issuer or the Company shall, at the option of any Holder, repurchase all of the Notes held by such Holder on December 16, 2022 at 100.0% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) December 16, 2022. |
| Redemption for Taxation Reasons | Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Issuer, the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders (which notice shall be irrevocable) and the Trustee, at a redemption price equal to 100.0% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Issuer, the Company or the Surviving Person, as the case may be, for redemption, if the Issuer, the Company or a Surviving Person would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes — Redemption for Taxation Reasons.” |
| Covenants..... | <p>The Indenture will limit the ability of the Issuer, the Company and its Restricted Subsidiaries to, among other things:</p> <ul style="list-style-type: none"> • incur additional indebtedness and issue disqualified or preferred 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 certain shareholders or affiliates; and
- effect a consolidation or merger.

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

| | |
|--|---|
| Transfer Restrictions | The New Notes and the Parent Guarantee will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions." |
| Form, Denomination and Registration..... | The New Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with a common depository and registered in the name of the common depository or its nominee. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream. |
| Book-entry Only..... | The New Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of their respective participants. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book — Entry; Delivery and Form." |
| Delivery of the New Notes..... | The Issuer expects to make delivery of the New Notes, against payment in same-day funds on or about May 24, 2021, which the Issuer 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 New Notes may be affected by the "T+3" settlement. See "Plan of Distribution." |
| Trustee..... | Citicorp International Limited. |
| Paying Agent, Transfer Agent and Registrar | Citibank, N.A., London Branch. |
| Listing | The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. 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 New Notes are expected to be rated "B-" by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. |

| Securities Codes | ISIN | Common Code |
|------------------------|---|--------------------|
| | XS2272702338 | 227270233 |
| Governing Law | The New Notes, the Parent Guarantee and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. | |
| Risk Factors | For a discussion of certain factors that should be considered in evaluating an investment in the New Notes, see “Risk Factors.” | |

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data of the Group. The summary consolidated income statement data for the years ended 31 December 2018, 2019 and 2020 and the summary consolidated balance sheet data as of 31 December 2018, 2019 and 2020 set forth below (except for EBITDA data) of the Group have been derived from our consolidated financial statements of the Company for the years ended 31 December 2019 and 2020, which have been audited by PricewaterhouseCoopers, Certified Public Accountants, and are included elsewhere in this offering memorandum. The consolidated financial statements of the Company for the year ended 31 December 2018 was audited by BDO Limited. In preparing the Company's audited consolidated financial statements as at and for the years ended 31 December 2019, the Company adopted the new accounting standards as and when they came into effect and has not restated the prior years' financial statements as permitted under the HKFRS. Therefore, the Company's summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 may not be comparable. For the impact on adoption of the new HKFRS, please refer to Note 2.2 to the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2019 included elsewhere in this Offering Memorandum. Our financial statements for the years of 2018, 2019 and 2020 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. You should read the summary consolidated financial information in conjunction with the financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum.

SUMMARY CONSOLIDATED PROFIT OR LOSS AND OTHER FINANCIAL DATA

| | For the year ended December 31, | | | |
|---|--|------------------|------------------|---------------------|
| | 2018 ⁽³⁾ | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ (unaudited) |
| | (in thousands, except for percentages) | | | |
| Revenue | 6,191,763 | 6,591,043 | 7,702,150 | 1,180,406 |
| Cost of sales and services..... | (4,305,878) | (4,691,703) | (5,534,120) | (848,141) |
| Gross profit | 1,885,885 | 1,899,340 | 2,168,030 | 332,265 |
| Other income | 2,283 | 21,571 | 21,855 | 3,349 |
| Other gains – net..... | 87,096 | 9,522 | 220,618 | 33,811 |
| Sales and marketing expenses..... | (156,851) | (249,765) | (285,377) | (43,736) |
| Administrative and other expenses | (319,245) | (367,894) | (443,067) | (67,903) |
| Impairment loss of trade and other receivables .. | (6,245) | (15,383) | (25,961) | (3,979) |
| Fair value changes in investment properties | 269,702 | 334,267 | 41,452 | 6,353 |
| Share of losses of joint ventures, net of tax | (8,101) | (20,629) | (3,177) | (487) |
| Finance costs/income – net..... | (110,422) | (31,179) | 225,494 | 34,558 |
| Profit before income tax | 1,644,102 | 1,579,850 | 1,919,867 | 294,232 |
| Income tax expense | (823,346) | (747,868) | (916,855) | (140,514) |
| Profit for the year | 820,756 | 831,982 | 1,003,012 | 153,718 |
| OTHER FINANCIAL DATA (UNAUDITED) | | | | |
| EBITDA ⁽¹⁾ | 2,156,108 | 1,929,249 | 2,622,430 | 401,905 |
| EBITDA Margin (%) ⁽²⁾ | 35 | 29 | 34 | 34 |

Notes:

- (1) EBITDA is not a standard measure under HKICPA. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, finance costs, depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined under Description of the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
- (3) We have reclassified certain amounts for the year ended December 31, 2018 which were shown as comparatives in the financial statements for the year ended December 31, 2019 to conform to the presentation in the financial statements for the year ended December 31, 2019.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As of December 31, | | | |
|--|--|------------|------------|---------------------|
| | 2018 ⁽¹⁾ | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ (unaudited) |
| | (in thousands, except for percentages) | | | |
| Non-current assets | | | | |
| Property, plant and equipment..... | 693,859 | 454,108 | 435,740 | 66,780 |
| Investment properties | 2,907,157 | 3,512,291 | 3,584,405 | 549,334 |
| Right-of-use assets | – | 243,593 | 376,656 | 57,725 |
| Interest in joint ventures..... | 15,899 | 46,295 | 43,897 | 6,728 |
| Financial assets at fair value through profit or loss | 10,000 | 329,828 | – | – |
| Derivative financial assets..... | 60,388 | – | – | – |
| Deferred tax assets | 25,649 | 84,311 | 189,110 | 28,982 |
| | 3,712,952 | 4,670,426 | 4,629,808 | 709,549 |
| Current assets | | | | |
| Properties under development..... | 7,554,327 | 10,686,501 | 14,051,893 | 2,153,547 |
| Properties held for sale..... | 4,144,040 | 2,307,057 | 2,080,204 | 318,805 |
| Trade receivables..... | 196,440 | 440,184 | 400,899 | 61,440 |
| Other receivables and prepayments | 2,461,839 | 2,686,068 | 4,633,717 | 710,148 |
| Contract costs..... | 80,698 | 152,882 | 187,798 | 28,781 |
| Short-term investments/Financial assets at fair value through profit or loss | – | – | 774,220 | 118,654 |
| Restricted and pledged deposits | 676,630 | 336,029 | 334,489 | 51,263 |
| Cash and cash equivalents..... | 2,410,063 | 1,572,618 | 1,968,713 | 301,718 |
| | 17,524,037 | 18,181,339 | 24,431,933 | 3,744,358 |
| Current liabilities | | | | |
| Trade and other payables..... | 2,164,105 | 3,542,819 | 4,102,800 | 628,782 |
| Contract liabilities | 8,559,878 | 8,050,565 | 9,429,225 | 1,445,092 |
| Bank and other borrowings | 2,817,188 | 1,929,664 | 2,653,495 | 406,666 |
| Derivative financial liabilities | 2,138 | 670 | – | – |
| Income tax payable..... | 251,998 | 662,266 | 1,329,699 | 203,785 |
| Lease liabilities | – | – | 8,753 | 1,341 |
| | 13,795,307 | 14,185,984 | 17,523,972 | 2,685,666 |
| Net current assets | 3,728,730 | 3,995,355 | 6,907,961 | 1,058,691 |
| Total assets less current liabilities | 7,441,682 | 8,665,781 | 11,537,769 | 1,768,240 |
| Non-current liabilities | | | | |
| Bank and other borrowings | 3,534,510 | 4,330,684 | 6,037,941 | 925,355 |
| Derivative financial liabilities – non-current portion..... | 8,757 | – | – | – |
| Lease liabilities | – | – | 162,772 | 24,946 |
| Deferred tax liabilities..... | 594,856 | 585,051 | 542,298 | 83,111 |
| | 4,138,123 | 4,915,735 | 6,743,011 | 1,033,412 |
| Net Assets | 3,303,559 | 3,750,046 | 4,794,758 | 734,829 |
| Capital and reserves/Equity | | | | |
| Share capital..... | 24,659 | 24,670 | 24,680 | 3,782 |
| Other reserves | 1,325,407 | 1,313,332 | 1,327,058 | 203,381 |
| Retained earnings | 1,563,359 | 2,201,171 | 2,995,966 | 459,152 |
| Equity attributable to owners of the Company | 2,913,425 | 3,539,173 | 4,347,704 | 666,315 |
| Non-controlling interests | 390,134 | 210,873 | 447,054 | 68,514 |
| Total equity | 3,303,559 | 3,750,046 | 4,794,758 | 734,829 |

Note:

- (1) We have reclassified certain amounts for the year ended December 31, 2018 which were shown as comparatives in the financial statements for the year ended December 31, 2019 to conform to the presentation in the financial statements for the year ended December 31, 2019.

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

Our revenue grew at a CAGR of 11.5% from 2018 to 2020. We cannot guarantee our future growth will continue at such a rate, as our results of operations are subject to a number of key factors, including, among others, the reduced number of properties completed and delivered. While we have commenced the pre-sale of a significantly increased volume of properties in recent years, there can be no assurance that all of our projects will be profitable. In addition, there is no assurance that the properties sold will be profitable when they are delivered in the future, which in turn could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

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

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

Toward the end of 2019, a highly infectious novel coronavirus, was identified in and quickly spread globally. The World Health Organization, or the WHO, later named it COVID-19. WHO is closely monitoring and evaluating the situation. On January 30, 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern, or the PHEIC. In March 2020, the WHO characterized the outbreak of COVID-19 a pandemic. As of the date of this offering memorandum, COVID-19 pandemic has spread to over 200 countries and territories globally with death toll and number of infected cases continued to rise. Many countries have imposed unprecedented measures to halt the spread of the COVID-19 pandemic, including strict city lockdowns and travel bans. Several cities in China where we have land bank and operations had been under a lockdown, and have imposed travel restrictions in an effort to curb the spread of COVID-19 pandemic.

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. The ongoing COVID-19 pandemic temporarily suspended our construction and sales activities in early 2020. Given the high uncertainties associated with the COVID-19 pandemic at the moment, it is difficult to predict how long these conditions will last and the extent to which we may be affected. Should the disruption to our operations continue, we may experience delays in completion and delivery of our projects, which may materially and adversely affect our results of operations and financial condition and may also cause reputation damage. In addition, any further disruption to our sales activities may negatively affect our liquidity and access to capital. The outbreak of COVID-19 pandemic also caused the delay in resumption of local business in the PRC after the Chinese New Year holiday and, as the outbreak extended, several countries have arranged to evacuate their nationals from Wuhan and introduced new restrictions on travel to and from China. The COVID-19 pandemic may further create negative economic impact and increase volatility in the PRC and global market and continue to cause increasing concerns over the prospects of the PRC residential property market, which may materially and adversely affect the demand for properties and property prices in China. Since April 2020, China and some other countries has lifted stay-at-home orders and resumed work and school at varying levels and scopes. However, there can be no assurance that this recovery momentum will continue in the future.

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

In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. The full impact of the Moody's downgrade remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications. If China's economic conditions worsen, or if the banking and financial systems experience difficulties from over-indebtedness, businesses in China may face a more challenging operating environment. More recently, trade tensions between the U.S. and China escalated, where both countries have increased tariff on certain products in their bilateral trade. 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 U.S. over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to global markets. On January 15, 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the "Phase I Agreement"). Under the Phase I Agreement, the U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both parties expressed a commitment to further improving various trade issues. Subsequent to the entering of Phase I Agreement, the PRC government and the U.S. government adopted specific measures to exclude imports from the other country from additional tariffs. 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.

The United Kingdom (the "UK") ceased to be a member of the European Union (the "EU") on January 31, 2020 ("**Brexit**"). During the period from that date to December 31, 2020, certain transitional arrangements were in effect, such that the UK continued to be treated, in most respects, as if it were still a member of the EU, and generally remained subject to EU law. On December 24, 2020, the EU and the UK reached an agreement in principle on the terms of certain agreements and declarations governing the ongoing relationship between the EU and the UK, including the EU-UK Trade and Cooperation Agreement (the "**TCA**"). On December 29, 2020, the Council of the European Union adopted a decision authorizing the signature of the TCA and its provisional application in the EU for a limited period (the "**Provisional Period**"), pending ratification of the TCA by the European Parliament. The TCA was subsequently signed on behalf of the EU on December 30, 2020; and the Provisional Period commenced on January 1, 2021, and is expected to end no later than April 30, 2021. Legislation to implement the TCA in the UK came into effect beginning on December 31, 2020. However, the TCA is limited in its scope to primarily the trade of goods, transport, energy links and fishing, and uncertainties remain relating to certain aspects of the UK's future economic, trading and legal relationships with the EU and with other countries. In addition, it is possible that the TCA may not be ratified by the European Parliament prior to the end of the Provisional Period, or at all, which would lead to further uncertainty as to the nature and terms of any subsequent relationships between the EU and the UK, and disruption may arise as a result. The actual or potential consequences of Brexit, and the associated uncertainty, could adversely affect economic and market conditions in the UK, in the EU and its member states and elsewhere, and could contribute to instability in global financial markets. 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.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, the general demand for real estate property in the PRC, which may adversely impact our property sales. There is no assurance that further economic slowdown will not occur in the near future, or the PRC government's economic recovery will be

sustainable or successful to address the economic slowdown. If market conditions deteriorate or a market downturn occurs again and becomes more severe, longer lasting or broader than expected, we could defer our expansion plans, delay our projects under development or face weakened sales and pre-sales which in turn could cause us to face a material loss of customers and revenue and our shareholder value and overall business prospects could be materially and adversely affected. In addition, any further tightening of liquidity in the global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be adversely affected.

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

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

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

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

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

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

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

We now have, and will continue to have after the issuance of the Notes, a substantial amount of indebtedness. As of December 31, 2020, our total bank and other borrowings including secured and unsecured borrowings from banks, trust company, individual investor and financial institutions and corporate bonds amounted to RMB8,691.4 million (US\$1,332.0 million). Our indebtedness, along with the associating short-term and long-term liquidity risk, could also have important consequences including, but not limited to, (i) increasing our vulnerability to adverse general economic and industry conditions, (ii) limiting, along with the financial and other restrictive covenants of the relevant subsidiary's indebtedness, among other things, our ability to borrow additional funds and (iii) limiting our ability to capitalize on growth and mergers and acquisitions opportunities. If any liquidity risk is realized or we are not able to appropriately service its debts, it could have a material adverse effect on our business and financial condition. Insolvency of the members of the company, or our inability to access additional debt financing as a result of the above could have a material adverse effect on our reputation, business, financial condition and operations.

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

Our chairman and chief executive officer, Mr. YU Pan, holds approximately 72.54% of our total issued shares as of the date of this offering memorandum. The interests of our controlling shareholder may differ from our interests or the interests of our creditors, including the holders of the New Notes. Our controlling shareholder could have and will continue to have the ability to exercise a controlling influence over our business, and may cause us to take actions that are not in, or may conflict with our best interest and the best interest of our creditors, including the holders of the New Notes, with respect to matters relating to our management and policies and the election of our directors and senior management. Our controlling shareholder will be able to influence our major policy decisions, including our overall strategic and investment decisions, by controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of any dividend payments, approving our annual budgets, deciding on increases or decreases in our share capital, determining our issuance of new securities, approving mergers, acquisitions and disposals of our assets or businesses and amending our articles of association. For more information, see "Directors and Senior Management" and "Principal Shareholders."

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

Our business depends, to a significant extent, on the capability and expertise of our senior management team members, including our executive directors and other members of our management who have operational experience in the real estate business. In particular, we rely on Mr. YU Pan, our chairman and chief executive officer, who has more than 30 years of experience in the development and management of real estate. If some of our senior management team members are unable or unwilling to continue in their present positions, we may not be able to identify and recruit suitable replacements in a timely manner, or at all, and the implementation of our business strategies may be affected, which could materially and adversely affect our operations. In addition, we rely on our employees, which include qualified design, construction management, quality control, marketing, on-site supervisory and construction management personnel for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected.

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

Pursuant to the Notice on Adjustment of Transfer Business Tax to Appreciation Tax (關於全面推開營業稅改徵增值稅試點的通知) issued on March 23, 2016 and implemented on May 1, 2016 ("Circular 36") by the Ministry of Finance ("MOF") and the PRC State Administration of Taxation ("SAT"), effective from May 1, 2016, PRC tax authorities have started imposing value added tax ("VAT") on revenues from

various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, to replace the business tax that co-existed with VAT for over 20 years. Since the issuance of Circular 36, the MOF and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of VAT on revenues from construction, real estate, financial services and lifestyle services. The VAT rates applicable to us may be generally higher than the business tax rate we were subject to prior to the implementation of Circular 36. For example, the VAT rate for the sale of self-developed real estate projects will be increased from 5% (the applicable business tax rate prior to May 1, 2016 and the applicable VAT rate for sale of “old projects”, i.e. real property whose construction commenced prior to May 1, 2016) to 11% and then decreased to 10% on May 1, 2018 and further decreased to 9% on April 1, 2019. Unlike business tax, the VAT will only be imposed on added value, which means the input tax incurred from our construction and real estate can be offset from our output tax. However, new rules concerning VAT for the real estate sector may be subject to changes and will only be finalized after the interim-period under Circular 36. We are still in the process of assessing the comprehensive impact of the new VAT regime on our tax burden, our revenues and results of operations, which remains uncertain.

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

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

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

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

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

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

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

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

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

As of December 31, 2020, we had one land plot held for future development in Guangzhou, with a total site area of approximately 497,200 sq.m. and an estimated GFA of approximately 1,922,000 sq.m., for which we had not obtained the relevant land use rights certificates or completed the acquisition. The aggregate amount of the outstanding consideration is estimated to be approximately RMB1.1 billion as of December 31, 2020.

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

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

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

We make certain undertakings in our pre-sale contracts, and our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we fail to complete a pre-sold property on time, we may be liable to the relevant customers for such late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If our delay extends beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A customer may also refuse to accept the delivery or even terminate the pre-sale contracts if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from

the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience any delays in the completion and delivery of our properties, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant pre-sale contract. Any of such factors could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

We engage third-party architecture and design firms and construction contractors to carry out various services relating to our property development projects. Services provided by third-party architecture and design firms include master planning, architectural design, landscape design, interior design and ancillary facilities design. Services provided by third-party construction contractors include construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities

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

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

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

Pursuant to the newly promulgated Enterprise Income Tax Law of the PRC (“New Tax Law”), which was promulgated on March 16, 2007 and amended on December 29, 2018 and took effective on the same day. The new enterprise income tax (“EIT”) rates for domestic and foreign enterprises are unified at 25% effective from January 1, 2008. As a result, the EIT rate of all the subsidiaries of the Company incorporated in the PRC have changed from 33% to 25% with effect from January 1, 2008. The New Tax Law came into effect on January 1, 2008, and the Foreign Enterprise Income Tax Law and its Implementation Rules were repealed.

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

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

Our properties developed for sale are subject to LAT. Under PRC tax laws and regulations, all income derived from the sale or transfer of land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value. LAT is calculated based on proceeds received from the sale of properties less deductible expenditures as provided in the relevant tax laws. We make provisions for the estimated full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations from time to time pending settlement with the relevant tax authorities. As we often develop our projects in phases, deductible items for the calculation of LAT, such as land costs, are apportioned among different phases of development. Provisions for LAT are made on our own estimates based on, among other things, our own apportionment of deductible expenses which is subject to final confirmation by the relevant tax authorities upon settlement of the LAT. We only prepay a portion of such provisions each year as required by the local tax authorities. In 2018, 2019 and 2020, we made provisions for LAT in RMB373.1 million, RMB365.2 million and RMB481.0 million (US\$73.7 million), respectively. We cannot assure you that the relevant tax authorities will always agree with our calculation of LAT liabilities, nor can we assure you that the LAT provisions will be sufficient to cover our LAT obligations in respect of our past LAT liabilities. If the relevant tax authorities determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount, our cash flow, results of operations and financial condition may be materially and

adversely affected. In addition, as we continue to expand our property developments, we cannot assure you that our provision for LAT obligations based on our estimates in new markets will be sufficient to cover our actual LAT obligations. As there are uncertainties as to when the tax authorities will enforce the LAT collection and whether it will apply the LAT collection retrospectively to properties sold before the enforcement, any payment as a result of the enforcement of LAT collection may significantly restrict our cash flow position, our ability to finance our land acquisitions and to execute our business plans.

Legislation enacted in Bermuda as to Economic Substance may affect our operations

Pursuant to The Economic Substance Act 2018 which came into force on December 31, 2018 (the “**Bermuda ES Act**”), a “registered entity” engaged in “relevant activities” is required to satisfy the economic substance test set out in the Bermuda ES Act. A “registered entity” includes an exempted company incorporated in Bermuda as is the Company; based on the current interpretation of the Bermuda ES Act, we believe that we are a pure equity holding entity since we only passively hold equity participations and earn revenue from dividends, distributions, capital gains and other incidental income derived from such equity participations.

Accordingly, for so long as the Company is a “pure equity holding company”, we are only subject to the minimum economic substance requirements, which require us to have adequate employees and premises in Bermuda for holding and managing our equity participations and to file an annual economic substance declaration and monitor ongoing compliance. We are also required to comply with our statutory corporate governance requirements which we are already required to do under the Companies Act 1981.

Legislation enacted in the British Virgin Islands as to Economic Substance may affect our operations

Pursuant to the Economic Substance (Companies and Limited Partnerships) Act, 2018 of the British Virgin Islands (“**BVI ES Act**”) that came into force on 1 January 2019, a “legal entity” engaged in “relevant activities” is required to satisfy the economic substance test set out in the BVI ES Act. A “legal entity” includes a business company incorporated in the British Virgin Islands as is our BVI subsidiaries; based on the current interpretation of the BVI ES Act, we believe that our BVI subsidiaries are pure equity holding entities since we only passively hold equity participations and earn revenue from dividends, distributions, capital gains and other incidental income derived from such equity participations.

Accordingly, for so long as our BVI subsidiaries are “pure equity holding entities”, we are only subject to the reduced economic substance requirements, which require us to have adequate employees and premises in the British Virgin Islands for holding and managing our equity participations and to comply with the statutory obligation which we are already required to do under the BVI Business Companies Act.

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

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

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

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

The permitted total GFA for a particular development is set out in various governmental documents issued at various stages. In many cases, the underlying land grant contract will specify permitted total GFA. Total GFA is also set out in the relevant urban planning approvals and various construction permits.

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

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

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

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

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

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

We may be involved in disputes with various parties involved in the development and sale of our properties, including contractors, suppliers, construction workers, purchasers and project development partners. These disputes may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. As some of our projects comprise multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are perceived to be inconsistent with our representations and warranties

made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities and cause delays to our property developments. From time to time, our officers and management may be parties to litigation or other legal proceedings. Even though our company may not be directly involved in such proceedings, such proceedings may affect our reputation and, consequently, adversely impact our business.

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

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

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

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

We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite the precautions taken, it may be possible for third parties to obtain and use our intellectual property without authorization, which may adversely affect our business and reputation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and, consequently, adversely affect our business and results of operations.

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

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

RISKS RELATING TO OUR INDUSTRY

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

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

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

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

In response to concerns over the extent of the increase in property investment and the overheating of the real estate sector in the PRC over the past few years, the PRC Government has introduced policies to stabilize property prices. These policies will increase the purchasing cost of real estate properties and is expected to have a material adverse impact on demand for properties in the PRC, which in turn could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that property development and investment activities in the PRC will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities of the PRC where we operate or intend to expand our operations.

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

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

We face intense competition from other real estate developers

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

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

RISKS RELATING TO THE PRC

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

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

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

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

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

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

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

The PRC legal system is based on written statute and prior court decisions can be cited only as a reference and are not binding precedents. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action that may be taken against us in the PRC. For example, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 PRC working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. For example, on September 14, 2015, the NDRC issued 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), which provides that enterprises domiciled within the PRC and their overseas subsidiaries or branches should file and register with the NDRC prior to issuance of foreign debt instruments and report relevant information on the issuance of the foreign debt instruments in relation to foreign debt with a maturity of more than one year to the NDRC within ten business days in the PRC after the completion of each issuance. In practice, enterprises incorporated outside of the PRC and controlled by individuals (other than those controlled by PRC enterprises as expressly provided in the NDRC Notice) may also be required by the NDRC to comply with the NDRC Notice. We have registered the issuance of the Notes with the NDRC pursuant to the NDRC Notices. Nevertheless, as the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits, and other statutory and contractual rights and interests.

The PRC legal system is less developed than legal systems in certain other jurisdictions and embodies inherent uncertainties that could have adverse consequences for the Issuer, the New Notes and the holders of the New Notes.

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

However, due to the fact that these laws, regulations and rules have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, regulations and rules involve some degree of uncertainty with respect to the outcome of any legal action that may be taken against us in the PRC. The interpretation of statutes, regulations and rules may also be subject to government policies which can change to reflect domestic political factors.

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

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

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

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

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

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

Under Law on Civil Air Defense of the PRC (中華人民共和國人民防空法), newly built civil buildings shall construct underground spaces as required under relevant rules and regulations for air defense purpose during war time. Therefore local authorities generally stipulate certain site areas of the civil air defense underground spaces of a project during the project planning in accordance with relevant laws, rules and local regulations. According to Civil Air Defense Law and Management Measures of Normal Development and Utilization of Air Defense Projects (人民防空工程平時開發利用管理辦法), civil air defense projects are normally under the management of investors who are entitled to the proceeds from such projects. Hence each company who develops air defense underground spaces has the right to receive proceeds from such projects by lease or other measures. As of December 31, 2020, most of our civil air defense underground spaces are used for car parks, that represent an insignificant portion of our property portfolio. We have accounted for such properties as completed properties held for sale.

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

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”) was issued by the NPC, which came in to effect on January 1, 2018 and amended respectively on February 24, 2018 and December 29, 2018, as supplemented by its implementation regulations. Under the EIT Law, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to a uniform 25% enterprise income tax (“EIT”) on their worldwide income. Under the implementation rules of the EIT Law (the “EIT Rules”), “de facto management bodies” are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China and may remain in China. Therefore, we may be treated as a PRC resident enterprise for EIT purposes and thus be subject to EIT on our worldwide income. However, a PRC resident enterprise is exempt from tax on dividend income received from qualified resident enterprises. The tax consequences to us in the case that we are treated as a PRC resident enterprise are not entirely clear, as they will depend on the implementation regulations and how local tax authorities apply or enforce the EIT Law and the EIT Rules. Furthermore, if we are treated as a PRC “resident enterprise”, we may be obligated to withhold PRC income tax, generally at a rate of 10% on payments of interest on the Notes to investors that are “non-resident enterprises” and a rate of 20% on payments of interest on the Notes to investors that are “non-resident individuals” because the interest may be regarded as being derived from sources within the PRC, unless a lower rate is applicable. If we are required under the PRC tax laws to withhold PRC tax on our interest payable to holders of the Notes who are “non-resident enterprises” or “non-resident individuals,” we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holder of each Notes of such amounts as would have been received by such holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. If we fail to do so, we may be subject to fines and other penalties. Further, if we are treated as a PRC “resident enterprise,” any gain realized by a “non-resident enterprise” investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and, accordingly, may be subject to a 10% PRC tax, while a “non-resident individual” investor might be subject to a 20% PRC tax.

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

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), which became effective on January 20, 2000 and amended on April 23, 2019, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. Generally, we receive quality warranties from our third-party contractors with respect to our property projects. If a significant number of claims are brought against us under our warranties, and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner, or if the money retained by us or the indemnity provided to cover our payment obligations under the quality warranties is not sufficient, we may incur significant expenses to resolve such claims or face delays in remedying the related defects, which may in turn harm our reputation, and materially and adversely affect our business, financial condition and results of operations.

We may be subject to additional payments of statutory employee benefits

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

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

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

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

RISKS RELATING TO THE NOTES AND THE PARENT GUARANTEE

The Issuer is our wholly-owned subsidiary and with no operations of its own and will be dependent upon payments from us under intercompany loans and/or pursuant to guarantees to meet its obligations under the Notes

The Issuer is our indirect wholly owned subsidiary with limited assets and has no business operations other than issuing the Notes, incurring other debt and engaging in related transactions. The Issuer therefore depends upon the receipt of sufficient funds from other members in our Group to meet its payment obligations under the Notes. The Issuer's primary assets will be intergroup loans to other members of our Group. Accordingly, the Issuer's ability to pay principal and interest on the Notes will depend upon its receipt of principal and interest payments on the intergroup loans from such borrowing members of the Group and our ability to honor the obligations under the Parent Guarantee. As a result, weakened financial performance and cash flow of our Group may adversely affect the Issuer's ability to make punctual payment under the Notes, and may make it difficult for us to repurchase the Notes upon the occurrence of certain triggering events.

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

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

The Notes are general senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. The Notes will be structurally subordinated to all our secured indebtedness and other obligations to the extent of the value of the assets securing that indebtedness and other obligations. As of December 31, 2020, we had approximately RMB3,367.7 million (US\$516.1 million) of secured bank and other borrowings. In addition, the Indenture will, subject to some limitations, permit us to incur additional secured indebtedness and the Notes will be effectively junior to any additional secured indebtedness we may incur.

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

In addition, creditors, including trade creditors, of our subsidiaries (other than the Issuer) and any holders of preferred shares in our subsidiaries (other than the Issuer) would have a claim on our subsidiaries' (other than the Issuer's) assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our subsidiaries (other than the Issuer) and all claims of creditors of our subsidiaries (other than the Issuer) 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, 2020, our subsidiaries' borrowings accounted for 54.1% of our indebtedness.

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

We now have, and will continue to have after the issuance of the New Notes, a substantial amount of indebtedness. As of December 31, 2020, we had total bank and other borrowings (including secured and unsecured borrowings from banks, trust company, individual investor and financial institutions and corporate bonds issued to financial institutions and professional investors) of RMB8,691.4 million (US\$1,332.0 million).

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the Indenture governing the Notes, our ability to incur additional debt is subject to limitation on indebtedness and preferred stock covenant as described under provisions of the Indenture. Under such covenant, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated EBITDA includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenant does not typically include such unrealized gains in the calculation of their Consolidated EBITDA. In addition, because our definition of Consolidated Interest Expense excludes (i) the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense has become payable by us), (ii) interest expenses arising from lease liability which would have been classified as "operating lease" before the adoption of GAAP 16 and (iii) interest expense arising from pre-sale receipts in advance from customers, our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers

whose typically include such interest expense in the calculation of their respective Consolidated Interest Expense. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. Please refer to the sections headed “Description of the Notes — Certain Covenants” and “Description of the Notes — Definitions” in this offering memorandum for further details.

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

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

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

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries (other than the Issuer), including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes and the Parent Guarantee. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, restrictions contained in the financing facilities entered into by our subsidiaries and applicable laws. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the Parent Guarantee.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to “conduit” or shell companies without substantive business activities. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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

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

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

The New Notes are denominated in U.S. dollars, while substantially all of our revenue are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Since August 11, 2015, PBOC requires market makers to quote on a daily basis their central parity rates for Renminbi against the U.S. dollar to the China Foreign Exchange Trade System before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. The mid-point price of Renminbi to the U.S. dollar depreciated by approximately 4.71% from August 10, 2015 to August 27, 2015 and continued to depreciate with fluctuations since April 2016. In addition, the PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the New Notes.

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

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

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

We pay dividends to our shareholders or repurchase our common stock from time to time. Under the Indenture, any such dividend payment will be a “Restricted Payment,” which could not be made unless we can, among other things, satisfy the Fixed Charge Coverage Ratio. However, such restriction is subject to important exceptions and qualifications. Under the Description of the Notes, we may pay dividends on our common stock or repurchase our common stock in an aggregate amount up to 20% of our consolidated profit for the year without satisfying the Fixed Charge Coverage Ratio. With such an exception, we may be able pay substantial amount of dividends even when we are highly leveraged, which may materially and adversely affect our ability to service our indebtedness, including the Notes.

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

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

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

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

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

Under the terms of the Notes, we shall, at the option of any Holder, repurchase all of the Notes held by such holder on December 16, 2022 at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) December 16, 2022. If such an event were to occur, the Company may not have sufficient cash in hand and may not be able to arrange financing to repurchase the

Notes in time, or on acceptable terms, or at all. There is also no assurance that we would have sufficient liquidity at such time to make the required repurchase of the Notes. The ability to repurchase the Notes in such event may also be limited by the terms of other debt instruments. Our failure to repay, repurchase or redeem the Notes could constitute an Event of Default under the Notes, which may also constitute a default under the terms of our other indebtedness.

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

As described under Description of Notes, in the event we are required to pay additional amounts as a result of future changes in existing tax law, or changes to existing official interpretations thereof, and such change results in our being required to withhold tax on interest payments as a result of our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

We may be unable to obtain and remit foreign exchange

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

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

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

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

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

- incur additional indebtedness and issue preferred stock;

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

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

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

In light of land prices, sizes of projects and other factors, we may from time to time consider developing property projects jointly with other PRC property developers or other strategic investors or make investments for other strategic reasons. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be our Restricted Subsidiaries. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications, including, among others, that we may, subject to certain conditions, make investments in any Unrestricted Subsidiaries and minority-owned joint ventures up to an aggregate amount of 15% of our total assets (of which, an aggregate amount of up to 5% of our total assets would not be required to satisfy the permitted business requirement), without satisfying the Fixed Charge Coverage Ratio requirement. See the section entitled "Limitation on Restricted Payments" and the definition of "Permitted Investment" in "Description of the Notes."

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

Because we are incorporated under the laws of Bermuda, an insolvency proceeding relating to us, regardless of where they are brought, would likely involve Bermuda insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws in other jurisdictions. In addition, the Issuer is incorporated in the British Virgin Islands and the insolvency laws of the British Virgin Islands may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

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

The New Notes are a new issue of securities for which there is currently no trading market. The Original Notes are listed and quoted on the SGX-ST. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing of the New Notes on the SGX-ST, or that if listed, a liquid trading market will develop. In addition, the New Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. We cannot predict whether an active trading market for the New Notes will develop or be sustained.

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

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

Redemption may adversely affect your return on the Notes

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

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

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

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

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

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

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

The New 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 New Notes will initially only be issued in global certificated form and held through Euroclear, Clearstream. Interests in the global notes representing the New Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the New Notes. The nominee of the common depository for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the New Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the New 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 holder of the New Notes under the Indenture.

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

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

If the Issuer fails to complete the post-issuance report to the NDRC in connection with the New Notes, NDRC may impose penalties or other administrative procedures on the Issuer

On September 14, 2015, the NDRC promulgated the NDRC Circular pursuant to which if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue notes outside of the PRC with a maturity of more than one year, such PRC enterprise must in advance of issuing such notes, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issue. According to the NDRC Circular, the NDRC is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the notes to the NDRC within 10 business days upon the completion of the note issue.

The NDRC Circular is silent on the legal consequences of noncompliance with the pre-issue registration requirement. In the worst case scenario, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes. Similarly, there is no clarity on the legal consequences of noncompliance with the post-issue notification requirement under the NDRC Circular. Additional guidance has been issued by the NDRC (《企業境外發行債券指引》) (the “NDRC Circular

Guidelines”) on December 18, 2015, which states that companies, investment banks, law firms and other intermediaries involved in debt securities issues which do not comply with the registration requirement under the NDRC Circular will be subject to a blacklist and sanctions. The NDRC Circular Guidelines are silent as to how such blacklist will be implemented or the exact sanctions that will be enacted by the NDRC, or any impact on the Noteholders, in the event of a noncompliance by the Issuer with the NDRC Circular. The Issuer has undertaken to notify the NDRC of the particulars of the issue of the New Notes within the prescribed period under the NDRC Circular.

Since the NDRC Circular is new and without any detailed implementation procedures, there is no assurance that the NDRC will not issue further implementation rules or notices which may require additional steps in terms of the registration or provide sanctions or other administrative procedures the NDRC may impose in case of failure of such registration with, or post issuance report to, the NDRC. The Issuer has completed the registration with the NDRC and obtained the registration certificate on September 23, 2020. If the Issuer does not report the post issuance information with respect to the Notes within the timeframe as provided under the NDRC Circular, the NDRC may impose sanctions or other administrative procedures on the Issuer which may have a material adverse impact on its business, financial condition or results of operations.

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

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

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

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

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (a) any holder (or any Affiliate of such holder) of 10% or more of shares of the Company; or (b) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair

and reasonable, and we will not need to deliver officers' certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions. In addition, we will also not be required to deliver officers' certificates or any fairness opinions for certain Affiliate Transactions which are connected transactions that are conducted in compliance with the relevant Listing Rules.

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

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

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

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

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

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in Bermuda, China and other relevant jurisdictions, 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 (whenever the transaction took place and irrespective of insolvency) 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 no consideration or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor or 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;
- in the case of guarantor incorporated outside the Bermuda only, 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 salable 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. Additionally, a guarantee will only be vulnerable if this is given within a six month period preceding the commencement of liquidation or, under some circumstances within a longer period. Further, a guarantee would be considered insolvent if it fails to comply with the requirements of a statutory demand that has not been set aside or if fails to satisfy in judgement, order or decree of the court in favour of a creditor upon execution of same.

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 Company under the Parent will be limited to the maximum amount that can be guaranteed by the Company without rendering the guarantee, as it relates to the Company, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids the Parent Guarantee subordinates such guarantee to other indebtedness of the Company or holds such guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against the Company based upon the Parent Guarantee, would be subject to the prior payment of all liabilities (including trade payables) of the Company. 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.

USE OF PROCEEDS

The gross proceeds from this issuance of the New Notes (inclusive of accrued interest from (and including) December 16, 2020 to (but excluding) May 24, 2021) will be approximately US\$118.3 million, which we plan to use for refinancing certain of our existing offshore indebtedness.

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

EXCHANGE RATE INFORMATION

China

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

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

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

| Period | Noon buying rate | | | Period end |
|-------------------------------------|------------------|------------------------|--------|------------|
| | Low | Average ⁽¹⁾ | High | |
| | | (RMB per US\$1.00) | | |
| 2015 | 6.1870 | 6.2869 | 6.4896 | 6.4778 |
| 2016 | 6.9430 | 6.6549 | 6.9580 | 6.9430 |
| 2017 | 6.4773 | 6.7530 | 6.9575 | 6.5063 |
| 2018 | 6.2649 | 6.6292 | 6.9737 | 6.8755 |
| 2019 | 6.6822 | 6.9014 | 7.1786 | 6.9618 |
| 2020 | 6.5208 | 6.8868 | 7.1681 | 6.5250 |
| October | 6.6503 | 6.7254 | 6.7898 | 6.6919 |
| November..... | 6.5556 | 6.6029 | 6.6899 | 6.5760 |
| December..... | 6.5208 | 6.5393 | 6.5705 | 6.5250 |
| 2021 | | | | |
| January | 6.4282 | 6.4672 | 6.4822 | 6.4282 |
| February..... | 6.4730 | 6.4601 | 6.4869 | 6.4344 |
| March..... | 6.5518 | 6.5109 | 6.5716 | 6.4932 |
| April (through April 23, 2021)..... | 6.4945 | 6.5306 | 6.5649 | 6.4903 |

Note:

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

Hong Kong

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

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

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

| Period | Noon buying rate | | | Period end |
|-------------------------------------|------------------|------------------------|--------|------------|
| | Low | Average ⁽¹⁾ | High | |
| | | (HK per US\$1.00) | | |
| 2015 | 7.7495 | 7.7519 | 7.7686 | 7.7507 |
| 2016 | 7.7505 | 7.7618 | 7.8270 | 7.7534 |
| 2017 | 7.7540 | 7.7950 | 7.8267 | 7.8128 |
| 2018 | 7.8043 | 7.8376 | 7.8499 | 7.8305 |
| 2019 | 7.7850 | 7.8335 | 7.8499 | 7.7894 |
| 2020 | 7.7498 | 7.7552 | 7.7504 | 7.7534 |
| October | 7.7498 | 7.7503 | 7.7548 | 7.7548 |
| November..... | 7.7505 | 7.7526 | 7.7552 | 7.7522 |
| December..... | 7.7505 | 7.7519 | 7.7539 | 7.7534 |
| 2021 | | | | |
| January | 7.7531 | 7.7533 | 7.7555 | 7.7517 |
| February..... | 7.7567 | 7.7529 | 7.7567 | 7.7515 |
| March..... | 7.7746 | 7.7651 | 7.7746 | 7.7562 |
| April (through April 23, 2021)..... | 7.7605 | 7.7708 | 7.7849 | 7.7596 |

Note:

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2020 on an actual basis and on an adjusted basis after giving effect to the issuance of the New Notes without deducting the underwriting fees, commissions and other estimated expenses payable by us (inclusive of accrued interest from (and including) December 16, 2020 to (but excluding) May 24, 2021) in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this offering memorandum.

| | As of December 31, 2020 | | | |
|--|-------------------------|-----------|-------------|-----------|
| | Actual | | As adjusted | |
| | RMB | US\$ | RMB | US\$ |
| | (unaudited) | | (unaudited) | |
| | (in thousands) | | | |
| Cash and cash equivalents⁽¹⁾ | 2,160,842 | 331,164 | 2,933,174 | 449,529 |
| Short-term borrowings⁽²⁾ | | | | |
| Bank and other borrowings | | | | |
| – due within one year..... | 2,653,495 | 406,666 | 2,653,495 | 406,666 |
| Total short-term borrowings | 2,653,495 | 406,666 | 2,653,495 | 406,666 |
| Long-term borrowings⁽²⁾ | | | | |
| Bank and other borrowings | | | | |
| – due after one year | 6,037,941 | 925,355 | 6,037,941 | 925,355 |
| New Notes to be issued..... | – | – | 772,332 | 118,365 |
| Total long-term borrowings | 6,037,941 | 925,355 | 6,810,273 | 1,043,720 |
| Total equity | 4,794,758 | 734,829 | 4,794,758 | 734,829 |
| Total capitalization⁽³⁾ | 10,832,699 | 1,660,184 | 11,605,031 | 1,778,549 |

Notes:

- (1) Cash and cash equivalents include pledged deposits of approximately RMB192 million (US\$29 million) as of December 31, 2020.
- (2) Subsequent to December 31, 2020, we have, in the ordinary course of business, entered into additional financing arrangements or placing agreements to finance our property developments, repay existing indebtedness and for general corporate purposes. These additional borrowings are not reflected in the table above. See “Description of Other Material Indebtedness.”
- (3) Total capitalization represents total long-term borrowings plus total equity.

Subsequent to December 31, 2020, we incurred additional indebtedness (including bank borrowings, offshore bond offerings and trust loans) and contingent liabilities. Such issuance of bond is not reflected in the table above. See “Business—Recent Developments.” In our ordinary course of operations, including upon or after the completion of this offering, we will continue to incur additional debt, including RMB denominated borrowings or other debt securities. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2020.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The following table presents our summary financial and other data of the Group. The summary consolidated income statement data for the years ended 31 December 2018, 2019 and 2020 and the summary consolidated balance sheet data as of 31 December 2018, 2019 and 2020 set forth below (except for EBITDA data) of the Group have been derived from our consolidated financial statements of the Company for the years ended 31 December 2019 and 2020, which have been audited by PricewaterhouseCoopers, Certified Public Accountants, and are included elsewhere in this offering memorandum. The consolidated financial statements of the Company for the year ended 31 December 2018 was audited by BDO Limited. In preparing the Company's audited consolidated financial statements as at and for the years ended 31 December 2019, the Company adopted the new accounting standards as and when they came into effect and has not restated the prior years' financial statements as permitted under the HKFRS. Therefore, the Company's summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 may not be comparable. For the impact on adoption of the new HKFRS, please refer to Note 2.2 to the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2019 included elsewhere in this Offering Memorandum. Our financial statements for the years of 2018, 2019 and 2020 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. You should read the summary consolidated financial information in conjunction with the financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum.

SELECTED CONSOLIDATED PROFIT OR LOSS AND OTHER FINANCIAL DATA

| | For the year ended December 31 | | For the year ended December 31 | |
|--|--|------------------|--------------------------------|---------------------|
| | 2018 ⁽³⁾ | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ (unaudited) |
| | (in thousands, except for percentages) | | | |
| Revenue | 6,191,763 | 6,591,043 | 7,702,150 | 1,180,406 |
| Cost of sales and services | (4,305,878) | (4,691,703) | (5,534,120) | (848,141) |
| Gross profit | 1,885,885 | 1,899,340 | 2,168,030 | 332,265 |
| Other income | 2,283 | 21,571 | 21,855 | 3,349 |
| Other gains – net | 87,096 | 9,522 | 220,618 | 33,811 |
| Sales and marketing expenses | (156,851) | (249,765) | (285,377) | (43,736) |
| Administrative and other expenses | (319,245) | (367,894) | (443,067) | (67,903) |
| Impairment loss of trade and other receivables | (6,245) | (15,383) | (25,961) | (3,979) |
| Fair value changes in investment properties | 269,702 | 334,267 | 41,452 | 6,353 |
| Share of losses of joint ventures, net of tax | (8,101) | (20,629) | (3,177) | (487) |
| Finance costs/income – net | (110,422) | (31,179) | 225,494 | 34,558 |
| Profit before income tax | 1,644,102 | 1,579,850 | 1,919,867 | 294,232 |
| Income tax expense | (823,346) | (747,868) | (916,855) | (140,514) |
| Profit for the year/period | 820,756 | 831,982 | 1,003,012 | 153,718 |
| OTHER FINANCIAL DATA (UNAUDITED) | | | | |
| EBITDA ⁽¹⁾ | 2,156,108 | 1,929,249 | 2,622,430 | 401,905 |
| EBITDA Margin (%) ⁽²⁾ | 35 | 29 | 34 | 34 |

Notes:

- (1) EBITDA is not a standard measure under HKICPA. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, finance costs, depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined under Description of the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
- (3) We have reclassified certain amounts for the year ended December 31, 2018 which were shown as comparatives in the financial statements for the year ended December 31, 2019 to conform to the presentation in the financial statements for the year ended December 31, 2019.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As of December 31 | | As of December 31 | |
|--|--|------------|-------------------|---------------------|
| | 2018 ⁽¹⁾ | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ (unaudited) |
| | (in thousands, except for percentages) | | | |
| Non-current assets | | | | |
| Property, plant and equipment..... | 693,859 | 454,108 | 435,740 | 66,780 |
| Investment properties..... | 2,907,157 | 3,512,291 | 3,584,405 | 549,334 |
| Right-of-use assets..... | – | 243,593 | 376,656 | 57,725 |
| Interest in joint ventures..... | 15,899 | 46,295 | 43,897 | 6,728 |
| Financial assets at fair value through profit or loss..... | 10,000 | 329,828 | – | – |
| Derivative financial assets..... | 60,388 | – | – | – |
| Deferred tax assets..... | 25,649 | 84,311 | 189,110 | 28,982 |
| | 3,712,952 | 4,670,426 | 4,629,808 | 709,549 |
| Current assets | | | | |
| Properties under development..... | 7,554,327 | 10,686,501 | 14,051,893 | 2,153,547 |
| Properties held for sale..... | 4,144,040 | 2,307,057 | 2,080,204 | 318,805 |
| Trade receivables..... | 196,440 | 440,184 | 400,899 | 61,440 |
| Other receivables and prepayments..... | 2,461,839 | 2,686,068 | 4,633,717 | 710,148 |
| Contract costs..... | 80,698 | 152,882 | 187,798 | 28,781 |
| Short-term investments/Financial assets at fair value through profit or loss..... | – | – | 774,220 | 118,654 |
| Restricted and pledged deposits..... | 676,630 | 336,029 | 334,489 | 51,263 |
| Cash and cash equivalents..... | 2,410,063 | 1,572,618 | 1,968,713 | 301,718 |
| | 17,524,037 | 18,181,339 | 24,431,933 | 3,744,358 |
| Current liabilities | | | | |
| Trade and other payables..... | 2,164,105 | 3,542,819 | 4,102,800 | 628,782 |
| Contract liabilities..... | 8,559,878 | 8,050,565 | 9,429,225 | 1,445,092 |
| Bank and other borrowings..... | 2,817,188 | 1,929,664 | 2,653,495 | 406,666 |
| Derivative financial liabilities..... | 2,138 | 670 | – | – |
| Income tax payable..... | 251,998 | 662,266 | 1,329,699 | 203,785 |
| Lease liabilities..... | – | – | 8,753 | 1,341 |
| | 13,795,307 | 14,185,984 | 17,523,972 | 2,685,666 |
| Net current assets | 3,728,730 | 3,995,355 | 6,907,961 | 1,058,691 |
| Total assets less current liabilities | 7,441,682 | 8,665,781 | 11,537,769 | 1,768,240 |
| Non-current liabilities | | | | |
| Bank and other borrowings..... | 3,534,510 | 4,330,684 | 6,037,941 | 925,355 |
| Derivative financial liabilities – non-current portion ... | 8,757 | – | – | – |
| Lease liabilities..... | – | – | 162,772 | 24,946 |
| Deferred tax liabilities..... | 594,856 | 585,051 | 542,298 | 83,111 |
| | 4,138,123 | 4,915,735 | 6,743,011 | 1,033,412 |
| Net Assets | 3,303,559 | 3,750,046 | 4,794,758 | 734,829 |
| Capital and reserves/Equity | | | | |
| Share capital..... | 24,659 | 24,670 | 24,680 | 3,782 |
| Other reserves..... | 1,325,407 | 1,313,332 | 1,327,058 | 203,381 |
| Retained earnings..... | 1,563,359 | 2,201,171 | 2,995,966 | 459,152 |
| Equity attributable to owners of the Company | 2,913,425 | 3,539,173 | 4,347,704 | 666,315 |
| Non-controlling interests | 390,134 | 210,873 | 447,054 | 68,514 |
| Total equity | 3,303,559 | 3,750,046 | 4,794,758 | 734,829 |

Note:

- (1) We have reclassified certain amounts for the year ended December 31, 2018 which were shown as comparatives in the financial statements for the year ended December 31, 2019 to conform to the presentation in the financial statements for the year ended December 31, 2019.

RESULT OF OPERATIONS

Our financial information for the years ended December 31, 2019 and 2020 in this section was derived from our 2020 Annual Report. Our financial information for the years ended December 31, 2018 in this section was derived from our 2019 Annual Report.

2020 compared to 2019

Revenue

For the year ended December 31, 2020, our revenue reached RMB7,702.2 million (US\$1,180.4 million), representing an increase of 16.9% as compared to RMB6,591.0 million in 2019. The increase was primarily attributable to the increase in GFA delivered in Chongqing Skyfame Smart City, Nanchang Skyfame Fenghuangyue and Zhongshan Skyfame Rainbow.

Cost of sales and services

Our cost of sales and services increased by 18.0% from RMB4,691.7 million in 2019 to RMB5,534.1 million (US\$848.1 million) in 2020, which was in line with our business expansion.

Gross profit

As a result of the foregoing, our gross profit increased by 14.1% from RMB1,899.3 million in 2019 to RMB2,168.0 million (US\$332.3 million) in 2020. Our gross profit margin remained stable at 28.1% and 28.8% in 2020 and 2019, respectively.

Other income

Our other income increased slightly from RMB21.6 million in 2019 to RMB21.9 million (US\$3.3 million) in 2020, primarily due to the interest income on loan receivables.

Other gains – net

Our other gains – net increased significantly from RMB9.5 million in 2019 to RMB220.6 million (US\$33.8 million) in 2020, primarily due to the remeasurement gains resulting from a joint venture transferred to a subsidiary of RMB 123.7 million and the fair value changes of the financial assets at fair value through profit or loss.

Sales and marketing expenses

Our selling and marketing costs increased by 14.3% from RMB249.8 million in 2019 to RMB285.4 million (US\$43.7 million) in 2020, primarily due to the higher volume of sale transactions and heavier promotional activities during 2020.

Administrative and other expenses

Our administrative and other expenses increased by 20.4% from RMB367.9 million in 2019 to RMB443.1 million (US\$67.9 million) in 2020, primarily due to increase in headcount as a result of expansion of business and amortization cost of share option scheme and share award scheme.

Impairment loss on trade and other receivables

Our impairment loss on trade and other receivables increased by 68.8% from RMB15.4 million in 2019 to RMB26.0 million (US\$4.0 million) in 2020, primarily due to the provision made for the long outstanding trade and other receivables.

Fair value change in investment properties

Our fair value changes in investment properties decreased significantly from RMB334.3 million in 2019 to RMB41.5 million (US\$6.4 million) in 2020, primarily due to the more prudent of the property market due to the COVID-19 and the external environment during the year.

Finance cost-net

Our finance cost increased by 35.0% from RMB643.4 million in 2019 to RMB868.6 million (US\$133.1 million) in 2020. The increase was mainly due to the increase in the indebtedness in overall and the increase in interest in lease liabilities during the year.

Income tax expense

Our income tax expense increased by 22.6% from RMB747.9 million in 2019 to RMB916.9 million (US\$140.5 million) in 2020, primarily as a result of the increase in our profit before tax due to an increase in GFA delivered and the increase in land appreciation tax in 2020.

Profit for the year

As a result of the foregoing, our profit increased by 20.6% from RMB832.0 million in 2019 to RMB1,003.0 million (US\$153.7 million) in 2020.

2019 Compared to 2018

Revenue

For the year ended December 31, 2019, our revenue reached RMB6,591.0 million, representing an increase of 6.4% as compared to RMB6,191.8 million in 2018. The increase was primarily attributable to the increase in GFA delivered in Nanning Skyfame Garden, Nanning Skyfame ASEAN Maker Town and Xuzhou Skyfame Time City during 2019 as compared to 2018.

Cost of sales and services

Our cost of sales and services increased by 9.0% from RMB4,305.9 million in 2018 to RMB4,691.7 million in 2019, primarily due to the increased activities in property delivery in 2019 as compared to 2018.

Gross profit

As a result of the foregoing, our gross profit increased by 0.7% from RMB1,885.9 million in 2018 to RMB1,899.3 million in 2019. We recorded overall gross profit margin of 28.8% in 2019, compared to 30.5% in 2018. The decrease in our gross profit margin was mainly due to a higher volume of sale in high-end apartments in Guangzhou Skyfame Byland which contributed a higher margin in 2018.

Other income

Our other income increased significantly from RMB2.3 million in 2018 to RMB21.6 million in 2019, primarily due to the interest income on loan receivables.

Other gains – net

Our other gains – net decreased significantly from RMB87.1 million in 2018 to RMB9.5 million in 2019, primarily due to the gain from bargain purchase in 2018 which amounted to RMB81.2 million.

Sales and marketing expenses

Our selling and marketing costs increased by 59.2% from RMB156.9 million in 2018 to RMB249.8 million in 2019, primarily due to the higher volume of sale transactions and heavier promotional activities during 2019.

Administrative and other expenses

Our administrative and other expenses increased by 15.3% from RMB319.2 million in 2018 to RMB367.9 million in 2019, primarily due to increased staff costs, which included RMB29.5 million accrued for shares awarded for the first time to management team members upon meeting certain pre-determined performance benchmarks for the year 2019.

Impairment loss on trade and other receivables

Our impairment loss on trade and other receivables increased significantly from RMB6.2 million in 2018 to RMB15.4 million in 2019, primarily due to the provision made for the long outstanding trade and other receivables.

Fair value change in investment properties

Our fair value changes in investment properties increased from RMB269.7 million in 2018 to RMB334.3 million in 2019, primarily due to an increase in the fair values of the existing investment properties.

Finance cost-net

Our finance cost decreased by 71.8% from RMB110.4 million in 2018 to RMB31.2 million in 2019. The decrease was primarily because we repaid the project loan for Guangzhou Skyfame Byland in 2019. The decrease was also due to foreign exchange losses of RMB38.9 million recorded on conversion of offshore loans denominated in Hong Kong Dollars and U.S. Dollars booked at closing rates as a result of the depreciation of Renminbi against the U.S. Dollars and Hong Kong Dollars in both years. Finance costs are netted off by finance income of RMB17.9 million.

Income tax expense

Our income tax expense decreased from RMB823.3 million in 2018 to RMB747.9 million in 2019, primarily as a result of the decrease in the provision of LAT for the property sold in Guangzhou Skyfame Byland in 2019.

Profit for the year

As a result of the foregoing, our profit increased from RMB820.8 million in 2018 to RMB832.0 million in 2019.

Non-GAAP Financial Measures

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

- finance costs; and
- depreciation and amortization of property, plant and equipment.

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

The following table reconciles our profit for the year under HKFRS to our definition of EBITDA for the periods indicated:

| | For the year ended December 31, | | For the year ended December 31 | |
|---|--|-----------|-----------------------------------|---------|
| | 2018 | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ |
| | (unaudited) | | | |
| | (in thousands, except for percentages) | | | |
| Profit before income tax | 1,644,102 | 1,579,850 | 1,919,867 | 294,232 |
| Adjustments: | | | | |
| Finance costs | 53,920 | 10,222 | 36,427 | 5,583 |
| Finance cost recognized in cost of sales | 435,808 | 307,743 | 625,447 | 95,854 |
| Depreciation and amortisation | 22,278 | 31,434 | 40,689 | 6,236 |
| EBITDA (UNAUDITED) | 2,156,108 | 1,929,249 | 2,622,430 | 401,905 |
| EBITDA Margin (%) (Unaudited) | 35 | 29 | 34 | 34 |

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

BUSINESS

OVERVIEW

We are a real estate developer focusing on high-quality commercial and residential properties and specializing in the development of youth community projects with young families as target customers in China. We are headquartered in Guangzhou, Guangdong province and have property development projects in a number of cities in the Greater Bay Area, the Southwestern Region and Southeastern Region of China, such as Shenzhen, Guangzhou, Zhongshan, Nanning, Guilin, Xuzhou, Nanchang, Kunming, Chongqing and Guiyang. We have four business segments, namely, property development, property investment, property management and commercial operations in youth community development projects. Among these segments, property development has contributed a substantial portion of our revenue for the past three years. Since 2016, we have been primarily focusing on the development of properties targeting young families. These properties are equipped with smart living and recreational facilities and are built in relatively smaller unit size, and thus, in affordable price. In 2020, we were ranked 159th in the list of “2019 China Real Estate Development Enterprises Top 500” released by the China Real Estate Association and the China Real Estate Evaluation Center of Shanghai Yiju Real Estate Research Institute.

As of December 31, 2020, we had a total of 18 property projects in mainland China at various stages of development, of which four have been completed and the others under construction or for imminent development, together with the joint venture project we participated in and other projects held by third parties that we are acting as project manager, all in all, we are holding interests in 27 projects, which were mainly located in 17 cities with a total site area of approximately 4,200,000 sq.m. and an aggregate actual/planned GFA of approximately 13,300,000 sq.m. As of the same date, we had an aggregate undelivered saleable (include but not limited to unsold) GFA of approximately 4,710,000 sq.m. for our 18 property projects, consisting of approximately 117,000 sq.m. of GFA available for sale of completed properties, approximately 4,471,000 sq.m. of planned GFA under development, 101,000 sq.m. of estimated GFA of projects held for future development and approximately 21,000 sq.m. of GFA leasable and held for own use. As of December 31, 2020, we have delivered completed saleable GFA of approximately 2,484,000 sq.m. to our customers.

We have received numerous awards and recognitions for our property projects and business operations. In 2019, we received the award of “2019 Quality China Real Estate Developer” from Organizing Committee of the China Real Estate Enterprise Awards, the “2019 Annual Award of the Listed Companies” from Hong Kong Stock Analysts Association, the “2019 South China Real Estate Brand Value Enterprise Award” by Guangzhou Housing Association and the “2019 China Listed Real Estate Enterprise Commercial Innovation Award” from Gelonghui. Our Nanning Skyfame City project was awarded the “2019 Quality Housing Contribution Award” by Southern Morning Post and Home Weekly. Our Guangzhou Skyfame Byland was awarded the “2019 China Real Estate Champion List – Top City Central Benchmark Luxurious Residences” by NetEase News Real Estate, the Guangdong Real Estate Association and the Evaluation Committee of China Real Estate Champion list. Our Xuzhou Skyfame Time City project was awarded “2019 Xuzhou Trustworthy Real Estate Enterprise” and “2019 Model Buildings of Xuzhou” by Xuzhou Broadcast and Television Media Group. In addition, our Community of Mr. Fish of Xuzhou Skyfame Time City was awarded the “2019 Xuzhou Most Influential Real Estate Property” in Xuzhou by Xuzhou Radio and Television Media Group.

In 2018, 2019 and 2020, we recorded revenue of RMB6,191.8 million, RMB6,591.0 million and RMB7,702.2 million (US\$1,180.4 million), respectively. We recorded a net profit attributable to owners of RMB751.3 million, RMB792.3 million and RMB950.9 million (US\$145.7 million), in 2018, 2019 and 2020, respectively.

COMPETITIVE STRENGTHS

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

Our business activities focus on the regions and cities in China with high growth potentials, such as Guangzhou, Shenzhen, Zhongshan, Zhuhai, Huizhou in the Greater Bay Area, Nanning and Guilin in the Southern Region, Xuzhou and Nanchang in the Eastern Region, Chongqing and Kunming in the Southwestern Region. These cities have experienced relatively strong economic growth that supports strong housing demand in the past few years. As of December 31, 2020, excluding projects for which we had not yet obtained, though on the pipelines, the land use rights for the developments, our planned GFA held for sale under development and held for future development of our 18 projects in each of Guangzhou, Shenzhen, Zhongshan, Zhuhai, Nanning, Guilin Xuzhou, Nanchang, Chongqing, Kunming was approximately 2,358,000 sq.m., 185,000 sq.m., 105,000 sq.m., 295,000 sq.m., 3,256,000 sq.m., 236,000 sq.m., 1,206,000 sq.m., 119,000 sq.m., 1,643,000 sq.m., and 788,000 sq.m., respectively. Together with the joint venture project and the projects that we are acting as project manager, we have total of 27 projects with GFA of 13.3 million sq.m.. We believe that we have established a relatively strong presence in these strategically selected markets, and that we are well positioned to further capture the growing demand for properties by customers in such markets.

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

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

As of December 31, 2020, we had in total ten projects under development and held for sales in an aggregate GFA of approximately 6,016,000 sq.m. in Nanning, Xuzhou, Chongqing, Kunming and Shenzhen, which are the models of our youth community projects. Out of which, our sizable pilot project in our Nanning Skyfame Garden Project, in which 8,000 households situate, is a project with an aggregate GFA of 1.2 million sq.m. consisting of a 2,000 sq.m. co-work place opened in 2018 and street front shops of 30,000 sq.m. that is expected to be fully delivered to customers during 2021. The other youth community project, Nanning ASEAN Maker Town Project, comprises a shopping mall, a kindergarten and a health care center, serve around 10,000 households in the community. Our first youth community project in Xuzhou of Jiangsu Province, Xuzhou Time City Project, has a total GFA of 468,000 sq.m., with the capacity to accommodate 4,800 households. Xuzhou Times City Project offers retail and commercial spaces in an aggregated GFA of 20,000 sq.m., which will be used mainly as co-working spaces and community retail businesses. Another project in our youth community project pipeline is Phase 2 of Chongqing Project, namely "Chongqing Skyfame • Smart City (重慶天譽•智慧城)." The project is a composite development with a total GFA of approximately 1.2 sq.m. The project will consist of residential apartments, lofts, co-working space and community retail properties. In addition, we provide community services to our residents and financial supports to entrepreneurs in our co-working spaces. Thus, the youth community projects not only bring in strong property sales and cash flows, but also provide us with a growing and sustainable stream of income from the provision of community service.

Recognized brand name with quality products

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

Experienced management team and strong risk management capabilities

Members of our management team have an entrepreneurial spirit, extensive operational expertise and an in-depth knowledge of, and experience in, China's real estate industry. Our board of directors and senior management members, have an average of more than 23 years of experience in the real estate industry. Mr. YU Pan, our chairman and chief executive officer, has 30 years of experience in real estate industries. In addition, we rely on valuable guidance provided by our non-executive directors, each of whom brings along a wealth of experience in fields such as banking, legal and corporate finance. We believe the leadership, vision, management experience and the proven track record of our management team has been and will continue to be instrumental in driving our success.

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

BUSINESS STRATEGY

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

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

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

Continue our development of Youth Community Projects

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

Continue to promote our brand name

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

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

RECENT DEVELOPMENTS

Issuance of Trillion Thrive Bonds

On February 3, 2021, our wholly-owned subsidiary, Rich Apex Limited, as the issuer, and the Company, as the guarantor entered into a subscription agreement (the “**Subscription Agreement**”) with Trillion Thrive Limited for the issuance and subscription of US\$20,000,000 14.5% senior guaranteed bonds due 2022 (the “**Trillion Thrive Bonds**”).

Proposed Spin-off and Separate Listing of Skyfame Inno Youth Smart Link Services Limited on the Hong Kong Stock Exchange

On March 25, 2021, our subsidiary Skyfame Inno Youth Smart Link Services Limited (天譽青創智聯服務有限公司) (“**Inno Youth Smart Link**”) through its appointed joint sponsors Zhongtai International Capital Limited and China Everbright Capital Limited, submitted a listing application to the Hong Kong Stock Exchange. Inno Youth Smart Link primarily engages in the provision of residential and non-residential property management services and value-added services.

Entering into Syndicated Loan Agreement

On May 8, 2021, our indirectly owned subsidiary, as the borrower, entered into a syndicated loan agreement with sub-branches of Agricultural Bank of China Co., Ltd and Bank of China Limited, as lenders. Under the syndicated loan agreement, the lenders have agreed to provide syndicated credit facility not exceeding RMB8.279 billion with interest at approximately 7% per annum.

OUR BUSINESS SEGMENTS

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

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

| | For the year ended December 31, | | | | | | |
|------------------------------------|--|--------------|------------------|--------------|------------------|---------------------|--------------|
| | 2018 | | 2019 | | 2020 | | |
| | RMB | % | RMB | % | RMB | US\$ (unaudited) | % |
| | (in thousands, except for percentages) | | | | | | |
| Sale of properties | 6,122,384 | 98.9 | 6,502,557 | 98.7 | 7,572,595 | 1,160,551 | 98.3 |
| Property management services | 41,404 | 0.7 | 51,021 | 0.8 | 97,840 | 14,995 | 1.3 |
| Rental income | 19,590 | 0.3 | 28,537 | 0.4 | 25,128 | 3,851 | 0.3 |
| Commercial operation | 8,385 | 0.1 | 8,928 | 0.1 | 6,587 | 1,010 | 0.1 |
| Total | 6,191,763 | 100.0 | 6,591,043 | 100.0 | 7,702,150 | 1,180,406 | 100.0 |

OUR PROPERTY DEVELOPMENT PROJECTS

Overview

As of December 31, 2020, we had a total of 27 property development projects at various stages of development. Based on the stage of development, we divide our property development projects into three categories:

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

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

The table below sets forth the GFA information of our 18 projects as of December 31, 2020. Many of our property developments consist of more than one parcel of land and require multiple land use rights certificates during the course of these property developments. Where our application for the land use rights certificate in respect of a parcel of land is still pending and we have not paid the land premium in full, we do not assign any value to the land and the properties on such land for the purpose of this offering memorandum. Our GFA information in this offering memorandum is based on our internal records. Information about our site area, estimated GFA, construction costs in this offering memorandum is based on the information on the land use rights certificates and construction permits or, if land use rights certificates are not available, based on our land grant contracts or land use rights transfer agreements.

The table below is a summary of our property development projects as of December 31, 2020:

| Project | Approximate Site area | Actual/Estimated construction commencement date | Actual/Estimated pre-sale commencement date | Actual/Estimated construction completion date | Group's beneficial interest | Completed | | | Under Development | | | | Held for Future Development | |
|---|-----------------------|---|---|---|-----------------------------|-----------|-----------------------------------|-------------------------------|-------------------------------------|---|---|--------------|-----------------------------|---------------------|
| | | | | | | Total GFA | Total saleable GFA ⁽¹⁾ | Saleable GFA remaining unsold | Planned total GFA under development | Planned total saleable GFA ⁽¹⁾ | Accumulated saleable GFA contracted but not delivered | Leasable GFA | | Estimated total GFA |
| (A) Completed projects for sale | | | | | | | | | | | | | | |
| Guangzhou Skyfame Bypass ("廣州天譽半島") | 43,609 | Feb 2013 | Jan 2015 | Jun 2017 & Oct 2019 | 100% | 314,000 | 159,000 | 16,000 | - | - | - | - | - | - |
| Zhongshean Skyfame Rainbow ("中山天譽虹悅") | 35,589 | Sep 2017 | Sep 2018 | Jun 2020 | 51% | 105,000 | 86,000 | 17,000 | - | - | - | - | - | - |
| Nanning Skyfame Garden ("南寧天譽花園") | 231,563 | Aug 2014 | Oct 2014 | Dec 2016-2018 | 80% | 1,202,000 | 949,000 | 40,000 | - | - | - | - | - | - |
| Nanchang Skyfame Phoenix's Shade ("南昌安義天譽鳳凰樹") | 102,667 | 2010 | 2011 | 2013 | 66% | 119,000 | 110,000 | 44,000 | - | - | - | - | - | - |
| (B) Projects under development | | | | | | | | | | | | | | |
| Guangzhou Fengwei Village project ("廣州鳳尾村項目") | 497,200 | Jan 2021 | Oct 2022 | Dec 2023-2027 | 100% | - | - | - | 1,922,000 | 735,000 | - | - | - | 1,922,000 |
| Skyfame Health Smart City ("天譽大健康智慧工業園") | 23,091 | Nov 2020 | Jun 2022 | Dec 2024 | 100% | - | - | - | 185,000 | 120,000 | - | - | - | - |
| Skyfame Zhuhai Bay ("天譽珠海灣") | 77,652 | Mar 2020 | Oct 2020 | Dec 2022-2023 | 100% | - | - | - | 295,000 | 209,000 | 42,000 | - | - | - |
| Nanning Skyfame ASEAN Maker Town ("南寧天譽東盟創客城") | 194,222 | Nov 2015 | Nov 2016 | Dec 2018-2024 | 100% | 684,000 | 616,000 | 6,000 | 621,000 | 431,000 | 143,000 | 50,000 | - | - |
| Nanning Spiritual Mansions ("南寧檀府·印象") | 137,812 | Apr 2018 | Sep 2018 | Dec 2020-2022 | 40% | 107,000 | 96,000 | - | 642,000 | 486,000 | 460,000 | - | - | - |
| Guilin Lipu Skyfame Jade Valley ("桂林荔浦天譽翡翠谷") | 340,858 | Mar 2020 | Jun 2020 | Jun 2022-2024 | 100% | - | - | - | 236,000 | 230,000 | 40,000 | - | - | - |
| Xuzhou Skyfame Time City ("徐州天譽時代城") | 172,764 | Mar 2017 | Jul 2017 | Jun 2019-2021 | 70% | 250,000 | 225,000 | 9,000 | 218,000 | 162,000 | 146,000 | - | - | - |
| Xuzhou Skyfame Elegance Garden ("徐州天譽雅園") | 73,823 | Dec 2018 | Jul 2019 | Dec 2021 | 78% | - | - | - | 205,000 | 158,000 | 130,000 | - | - | - |
| Xuzhou Skyfame Smart City ("徐州天譽智慧城") | 213,639 | Mar 2020 | Sep 2020 | Aug 2022-2024 | 100% | - | - | - | 533,000 | 398,000 | 74,000 | - | - | - |
| Chongqing Skyfame Smart City ("重慶天譽·智慧城") | 221,583 | Dec 2015 | Jan 2016 | Dec 2017-2023 | 100% | 536,000 | 455,000 | 59,000 | 659,000 | 466,000 | 14,000 | 249,000 | - | - |
| Chongqing Skyfame Linxiu ("重慶天譽林溪府") | 127,843 | Apr 2020 | Nov 2020 | Jun 2022-2023 | 100% | - | - | - | 448,000 | 357,000 | 8,000 | - | - | - |
| Kunming Aiming Linxi Valley ("昆明安寧林溪谷") | 190,800 | Nov 2018 | Jul 2019 | Jul 2021-2022 | N/A ⁽²⁾ | - | - | - | 297,000 | 255,000 | 161,000 | - | - | - |
| Kunming Skyfame City ("昆明天譽城") | 138,601 | Dec 2019 | Jun 2020 | Dec 2021-2024 | 90% | - | - | - | 491,000 | 388,000 | 75,000 | - | - | - |
| (C) Projects held for future development | | | | | | | | | | | | | | |
| Guangzhou Luogang Project ("廣州羅崗項目") | 50,263 | 2022 | 2023 | 2025 | 100% | - | - | - | - | - | - | - | - | 122,000 |

Notes:

- Total saleable GFA and planned total saleable GFA exclude unsaleable area for municipal facilities, area allocated to the cooperative partner and resettlement housing to be provided without sale considerations in certain projects.
- Project owned and controlled by us.

Description of Projects

As of December 31, 2020, we had a total of 18 property projects in mainland China at various stages of development, of which four have been completed and the others under construction or for imminent development, together with the joint venture project we participated in and other projects held by third parties that we are acting as project manager, all in all, we are holding interests in 27 projects, which were mainly located in 17 cities with a total site area of approximately 4,200,000 sq.m. and an aggregate actual/planned GFA of approximately 13,300,000 sq.m. As of the same date, an aggregate undelivered saleable (include but not limited to unsold) GFA of approximately 4,710,000 sq.m. for our 18 property projects, consisting of approximately 117,000 sq.m. of GFA available for sale of completed properties, approximately 4,471,000 sq.m. of planned GFA under development, 101,000 sq.m. of planned GFA of projects held for future development and approximately 21,000 sq.m. of GFA leasable and held for own use. Up to December 31, 2020, we have delivered completed saleable GFA of approximately 2,484,000 sq.m. to our customers.

The following sets out a summarized description of our land bank with the major projects completed, under development and held for future development.

Guangzhou Skyfame Byland (“廣州天譽半島”)

Guangzhou Skyfame Byland is a residential and commercial property project located in Haizhu District, Guangzhou, Guangdong Province. Opposite to the renowned White Swan Hotel, Skyfame Byland offers a full waterfront view of the Pearl River. This project consists of residential apartments, serviced apartments, offices, car parking facilities and other supporting commercial facilities of a total GFA of approximately 314,000 sq.m.. Guangzhou Port Group Co., Limited, an original user of the land for this project, who is entitled to share 28% in the GFA of the project according to the relevant joint venture agreement. Other than tower A1 which is under interior decoration works, the remaining parts of the project were completed in 2017 to 2019. As of December 31, 2020, an aggregate saleable GFA of approximately 123,000 sq.m. has been delivered to our customers. We retained hotel tower A1 and 800 parking space with a GFA of approximately 20,000 sq.m. for long-term leasing purpose.

Guangzhou Fengwei Village Project (“廣州鳳尾村項目”)

The project is an old village redevelopment project located in Fengwei Village, Jiufu Street (九佛街), Huangpu District, Guangzhou. The project is adjacent to the Hongwei metro station, which is about one hour away from Tianhe District, the centre of Guangzhou, and close to the International Biomedical Innovation Park. The project covers a land for a total GFA of 1,922,000 sq.m.. The plot-ratio gross floor area of the commodity housing is estimated to be 763,000 sq.m.

In late of 2020, an indirect wholly-owned subsidiary of the Company namely Nanning Tianyu Jurong Real Estate Co., Ltd. (“Tianyu Jurong”), was notified by Fengwei Village Economic Cooperative that, Tianyu Jurong acquired the project, after going through a public bidding process.

Zhongshan Skyfame Rainbow (“中山天譽虹悅”)

In May 2017, we entered into an acquisition agreement to acquire a 51% equity interest of the project. Zhongshan Skyfame Rainbow is located on Cui Sha Road, Zhongshan, Guangdong Province and is comprised of residential and ancillary commercial properties. This project was completed in 2020 and has a total planned GFA of approximately 105,000 sq.m. We launched the first phase of pre-sale in September 2018. As of December 31, 2020, an aggregate saleable GFA of approximately 57,000 sq.m. has been delivered to our customers.

Nanning Skyfame Garden (“南寧天譽花園”)

Nanning Skyfame Garden is a residential and commercial property project located in Wuxiang New District (五象新區), Nanning, Guangxi Province. The project has a total planned GFA of approximately 1,202,000 sq.m. As of December 31, 2020, an aggregate saleable GFA of approximately 909,000 sq.m. has been delivered and the remaining GFA of 40,000 sq.m. are available for sale or lease as part of our co-work space.

Nanning Skyfame ASEAN Maker Town (“南寧天譽東盟創客城”)

Nanning Skyfame ASEAN Maker Town is a residential and commercial property project located in Wuxiang New District, Nanning. This project has a total planned GFA of approximately 1,305,000 sq.m. The project is a residential and commercial complex divided into east and west zones. The east zone consists of A-class offices, serviced apartments, retail properties, and ancillary facilities for youngsters named as “the World of Mr. Fish” (“魚先生的世界”). The east zone also includes an international 5-star hotel, the Westin Nanning, in the Skyfame ASEAN Tower (“天譽東盟塔”) with a height of 346 meters. The west zone consists of residential and retail properties named as “Nanning Skyfame Byland” (“南寧天譽半島”). The construction is expected to be completed between 2018 and 2023. As of December 31, 2020, residential and commercial units of saleable GFA of approximately 610,000 sq.m. were delivered. Among the undelivered saleable GFA of 437,000 sq.m, we plan to hold a GFA of 50,000 sq.m. for leasing. We expect to deliver the remaining GFA of 387,000 sq.m. between 2021 and 2023.

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

Nanning Spiritual Mansions (“南寧檀府•印象”)

The Group participated in an arrangement with two local developers for the project, and we hold a 40% equity interest in the project company. The project is located in the core area of Wuxiang New Zone at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning. The project has a total planned GFA of approximately 749,000 sq.m. In June 2018, we obtained the land use rights certificate for this project. The project will include residential and commercial properties, school and municipal facilities. Construction works commenced in 2018 and are expected to complete in phases by 2022. Up to December 31, 2020, a total saleable GFA of 96,000 sq.m. has been delivered to buyers.

Guilin Lipu Skyfame Jade Valley (“桂林荔浦天譽翡翠谷”)

The project is located in Lipu city (荔浦市) at the south of Guilin city in Guangxi. The land plot was acquired through a land auction in 2019. We plan to develop villas, serviced apartments and a hotel in the project. The total planned GFA is approximately 236,000 sq.m. Construction works commenced in late 2019. We planned to deliver the properties between 2022 to 2024.

Xuzhou Skyfame Time City (“徐州天譽時代城”)

Xuzhou Skyfame Time City is expected to be a residential property project located at the Xuzhou Quanshan Jiangsu Economic Development Zone, Xuzhou, Jiangsu Province. The project has a total planned GFA of approximately 468,000 sq.m. We commenced the construction in March 2017 with three planned phases, which are all expected to be completed by 2021. As of December 31, 2020, residential and ancillary commercial units of saleable GFA of 216,000 sq.m. were delivered.

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

Xuzhou Skyfame Elegance Garden is expected to be a residential and commercial property project located in Xuzhou. The total planned GFA is approximately 205,000 sq.m. Construction works commenced in December 2018 and are expected to complete in 2021. We commenced the pre-sale of the project in late 2019.

Xuzhou Skyfame Smart City (“徐州廣譽智慧城”)

The property is located in the Jiulihu (九里湖) District in north Xuzhou. The land plot was acquired through a land auction in late 2019. The project is a mixed-use project, consisting of residential properties, serviced apartments, commercial properties and a hotel. The project has a total planned GFA of approximately 533,000 sq.m. and a saleable GFA of 398,000 sq.m. Construction has commenced in 2020 and is expected to complete construction in 2022 to 2024.

Chongqing Skyfame • Smart City (“重慶天譽•智慧城”)

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

Phase 1 of the project, “Gold Purple” (“紫金一品”), commenced construction in 2015 and was completed in early 2018. The total planned GFA and saleable GFA are approximately 313,000 sq.m. and 254,000 sq.m., respectively. As of December 31, 2020, an aggregate saleable GFA of 179,000 sq.m. had been delivered.

Phase 2 of the project, “Chongqing Skyfame • Smart City” (“重慶天譽•智慧城”), is consisted of residential properties, serviced apartments, offices, shopping mall and car park spaces with a total GFA of 882,000 sq.m. Approximately 249,000 sq.m. will be developed as investment properties, while the rest will be held for sale. Construction works have commenced in the mid of 2018 and pre-sale has been commenced in late 2018. As of December 31, 2020, an aggregate saleable GFA of 216,000 sq.m. had been delivered.

Chongqing Skyfame Linxifu (“重慶天譽林溪府”)

We acquired the project in late 2019. The land plot will be developed into residential and ancillary commercial properties with a total GFA of approximately 448,000 sq.m. and a saleable GFA of 359,000 sq.m. Construction has commenced in 2020 and pre-sale in late of 2020.

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

In 2018, the Group obtained the development right of the project through contractual arrangement. The project has a total planned GFA of approximately 297,000 sq.m. and a saleable GFA of 255,000 sq.m. The project will be developed into villas, residential properties and ancillary commercial properties. Construction works commenced in late 2018 and are expected to complete in 2022.

Kunming Skyfame City (“昆明天譽城”)

The project is located in Anning City in Yunan Province. The land plot was acquired through a land auction in late 2019. The project is comprised of youth community, including co-work space and residential properties. The project has a total planned GFA of approximately 491,000 sq.m. and a saleable GFA of 388,000 sq.m. Construction works commenced in early 2020 and pre-sale was launched in July 2020. We expect construction to complete in years 2021 to 2024.

Skyfame Health Smart City (“天譽大健康智慧工業園”)

Skyfame Health Smart City is located in Dachitdat Industrial Zone, Guangming New Zone, Shenzhen, Guangdong Province and expected to be comprised of serviced apartments and offices. The project is part of an old district remodelling program, and existing properties on the respective land parcel with offices demolition completed. The project has a planned GFA of approximately 185,000 sq.m. and a saleable GFA of 120,000 sq.m. We plan to construct innovative industrial premises, serviced apartments and offices.

Guangzhou Luogang Project (“廣州羅岡項目”)

Guangzhou Luogang Project is located on Yin Tong Road, Yonghe District, Guangzhou, Guangdong Province and expected to be comprised of serviced apartments and commercial properties. This project has a total planned GFA of approximately 122,000 sq.m. Commencement of construction is pending the obtaining of government approval for the conversion of the land use from industrial to commercial. Negotiations with the local government have been in progress. As of December 31, 2020, we had not obtained the land use rights certificate for commercial use for this project.

Skyfame Zhuhai Bay (“天譽珠海灣”)

We acquired the project in December 2019. The project is located in the Economic Zone of Gaolan Harbour, Pingshan New Town, Zhuhai, Guangdong Province. The project is a residential project, with a total planned saleable GFA of approximately 209,000 sq.m. for sale and a total planned GFA of 22,000 sq.m. as social subsidized housing and public rental housing. We expect to complete project construction in 2022.

Nanchang Skyfame Fenghuangyue (“南昌天譽鳳凰樾”)

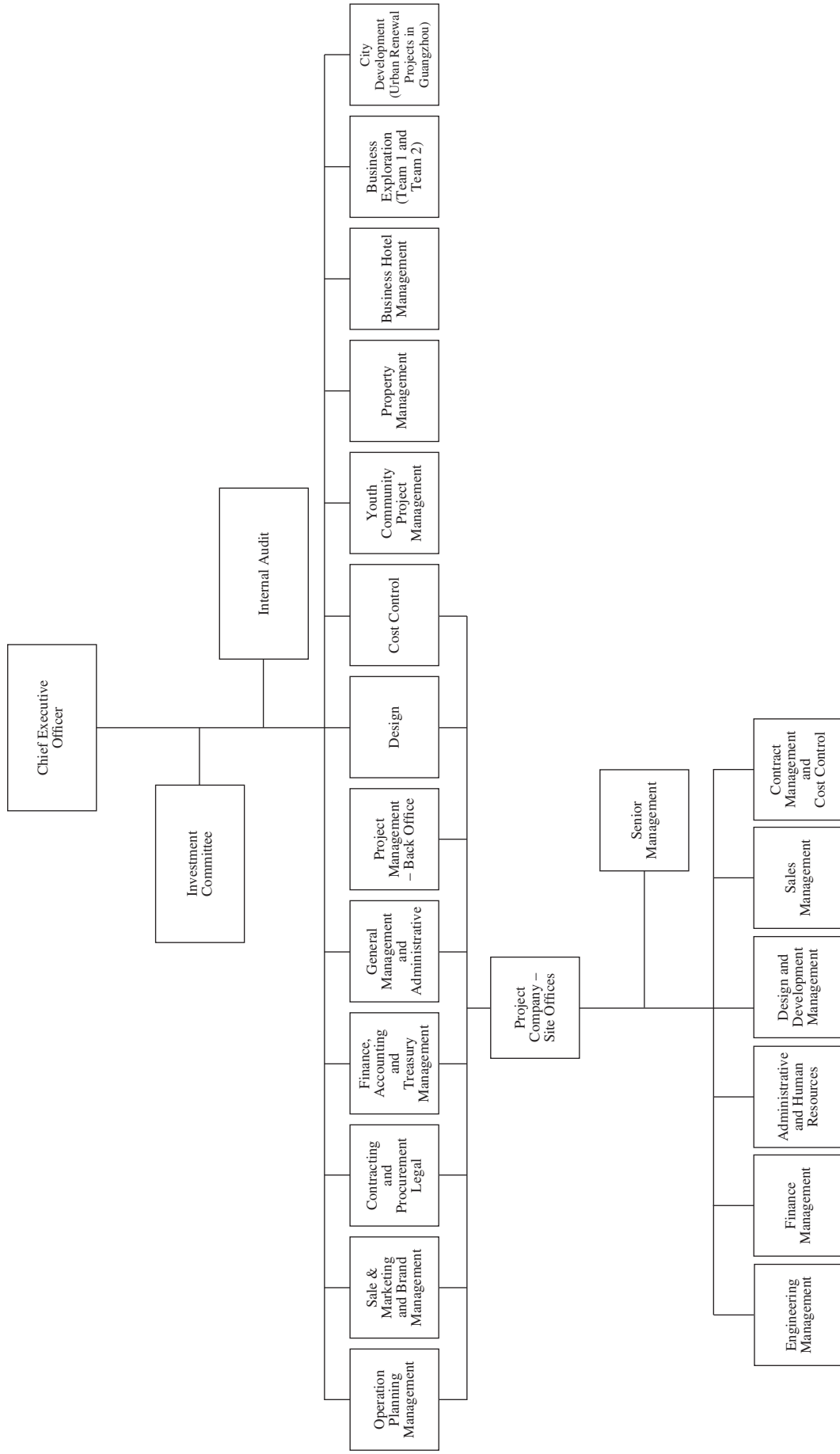
We acquired the project in late 2019. The project is located in Anyi County, Jiangxi Province. The project will consist of villas, residential properties, street-level shops and a hotel. The project was completed upon acquisition, but subject to minor rectification and upgrading works. As of December 31, 2020, an aggregate saleable GFA of 66,000 sq.m. had been delivered to our customers and the remaining were held for sale.

Co-operation Projects

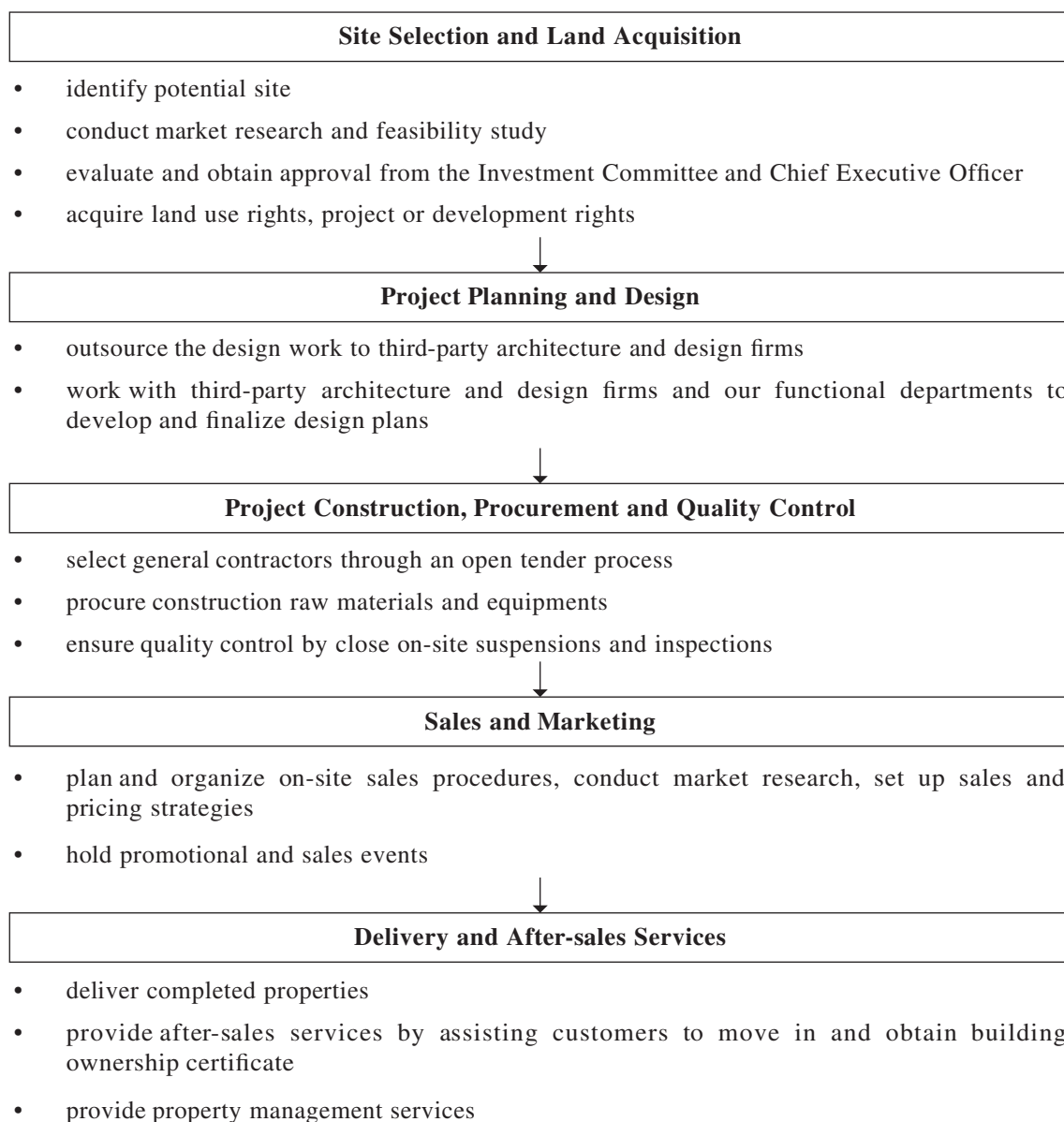
As of December 31, 2020, our property portfolio consists of a number of projects jointly developed by the joint ventures, or we acted as project manager pursuant to the relevant agreements. The total GFA of these projects was approximately 3.1 million sq.m. as of December 31, 2020.

Our Property Development Management

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



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



Site selection

We place a strong emphasis on selecting suitable locations for our projects. We focus on locations with good business potentials, such as Guangzhou, Shenzhen, Zhuhai, Huizhou and Zhongshan in the Greater Bay Area, Nanning, Guilin, Xuzhou and Nanchang in the Southeastern Region, Kunming, Guiyang and Chongqing in the Southwestern Region of China.

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

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

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

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

Land acquisition

In 2018, 2019 and 2020, we obtained our land reserves through the following methods:

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

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

Project design

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

Construction and procurement

Project Management

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

Appointment of Construction Contractors

We do not maintain a construction capacity and outsource construction works of all our property development projects to qualified third-party main construction contractors. Such construction works include, among other things, foundation digging, general construction and installation of equipment. The main contractors of our property developments are selected through an open tender process. The tender process is managed by the cost management center of our headquarters and the respective project companies. We conduct due diligence procedures on our potential contractors, such as inspecting their credentials and on-site supervision on their offices and property projects, and only those contractors who have passed such due diligence procedures are invited to participate in the tender. In selecting the winning bid, we typically consider the contractors' professional qualifications, technical capabilities, industry reputation, track record and prices tendered. We also involve in the work of specialized contractors in specific areas, such as landscaping, glass wall panel installations, night lighting system installations and smart key entrance security control system. The specialized contractors are typically selected through a tender process and will typically enter into contracts with us. In 2018, 2019 and 2020, we had engaged and maintained stable business relationships with a number of main construction contractors and specialized contractors.

We are not responsible for any labor issues of our contractors or accidents and injuries that may occur during construction. These risks are borne by the contractors, as provided in our contracts with them. However, our strict quality control measures require our contractors to comply with the relevant rules and regulations including environmental, labor, social and safety regulations to minimize our risks and liabilities. In 2018, 2019 and 2020, our contractors were not involved in any dispute with the Group nor cases of material personal injury or death that had a material and adverse effect on our business. Under typical agreements with our contractors, we make payments to contractors in stages according to the progress of construction works. The percentage of each stage payment varies from project to project according to the terms stipulated in the relevant contracts. Our contracts with contractors typically provide for the retention of a certain percentage of the total payment as quality assurance. Depending on the type of construction works involved, such retention amount is released to the contractor upon the expiry of the relevant quality assurance period, which is generally two years.

Procurement

Our procurement activities fall into two categories: construction raw materials and equipment. Our construction contractors are responsible for procuring raw materials, notably steel and concrete. With respect to construction contracts of substantial value and of a long duration, we typically engage in discussions with our contractors and adjust construction fees if fluctuations in the market prices of such commodities exceed a certain threshold (typically 3% to 5%), and we, as a result, may or may not bear risks associated with such commodity price movements as we will share the risks in price fluctuations depending on cases. In 2018, 2019 and 2020, material fluctuations in the price of construction raw materials exceeding the relevant materiality threshold in the relevant contracts had been finalized with our construction contractors and any overruns have been mutually agreed with our construction contractors or adequately provided for in the financial accounts of the Company. Nonetheless, as we typically pre-sell our properties prior to their completion, we will not be able to pass the increased costs to our customers if construction costs increase subsequent to the pre-sale. We generally procure equipment according to strategic cooperation agreements with suppliers. As the purchase prices have been pre-determined and are fixed in a long term, the fluctuation of market prices of relevant equipment will not adversely affect our business and financial performance.

Quality control and project management

We place significant emphasis on quality control in the management of our projects. As of December 31, 2020, we had a team of 75 employees with an average of 13 years of experience in the project management and supervision of contractors' works. The following are certain important measures or procedures we have adopted in furtherance of this goal:

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

Sales and marketing

Sales and Marketing Plan

Our internal sales department is responsible for managing our sales and marketing functions. As of December 31, 2020, our sales and marketing team comprised over 69 employees, all of whom receive regular training from time to time. Our sales managers and our marketing managers cooperate closely to determine appropriate advertising and sales plans for a particular property development. They also work together to plan and organize efficient and orderly on-site sales procedures, conduct market research, design sales and pricing strategies, arrange promotional activities and collect customer data and comments. They also prepare feasibility studies based on market analysis.

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

The sales and marketing teams of our project companies study local market information and formulate pre-marketing, sales and pricing plans and procedures for approval by the sales and marketing center of our headquarters. We determine our per unit sales price with reference to the sales price of market comparables, market conditions and our development costs. Our sales and marketing personnel are incentivized by performance-based compensation packages. Throughout and subsequent to the project development and pre-sale period, we provide comprehensive assistance to our customers, coordinate

internally to address queries raised by, and collect feedback from, our customers and potential customers for us to evaluate our products and devise modifications to designs of our future properties as appropriate to address any change in market demand.

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

Pre-sale

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

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

COMPETITION

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

PROPERTY INVESTMENT

As of December 31, 2020, we leased properties with an aggregate total GFA of approximately 339,000 sq.m. to operators of business center, offices, car parking spaces and serviced apartments. When entering into leasing agreements, we scrutinized the backgrounds of the lessees to ensure they are financially sound and reputable in business. The duration of the leases of these properties was typically one year to 20 years.

We also have other investment properties, such as Skyfame Nanning ASEAN Maker Town and Chongqing Skyfame Smart City, which are under development. Skyfame Nanning ASEAN Maker Town has a total GFA of 50,200 sq.m. and is located adjacent to an international hotel and a skyscraper office building. The project is comprised of retail and distribution properties. We expect to complete construction of the projects in 2023.

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

PROPERTY MANAGEMENT

We currently provide property management services to properties developed by us or by companies affiliated with our controlling shareholder prior to his taking over the control of the Company. As of December 31, 2020, we provided property management services to properties with a total GFA of approximately 4.7 million sq.m. Our property management services are provided by Guangzhou Tianyu Property Management Company Limited (廣州市天譽物業管理有限公司).

OPERATIONS OF YOUTH COMMUNITY PROJECTS

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

Our youth community projects also provide co-work space for start-up enterprises. Our first co-work space in Guangzhou is located in Tianyu Garden II and occupies approximately 2,000 sq.m. We also opened the second and third co-work space in Nanning Skyfame Garden, Chongqing Skyfame and Smart City with approximately 2,000 sq.m and 1,000 sq.m, respectively. In 2020, we achieved an occupancy rate of 86% and generated revenue of RMB6.6 million from our co-work space operations. In addition to renting our co-work spaces, we also invest in selected start-ups. All these commercial operations are not only an ancillary business line to our youth community developments for young buyers, but will become an income driver to the Group in the near future as and when increasing number of youth community projects are completed and put into use.

INSURANCE

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

EMPLOYEES

As of December 31, 2020, we had 1,489 full-time employees. The following table sets forth the breakdown of our employees by function:

| Employee Function | Number of Employees |
|--|---------------------|
| Sale Marketing and Brand Management | 69 |
| Contracting and Procurement..... | 13 |
| Investment and Business Development..... | 32 |
| Finance, Accounting and Treasury Management..... | 19 |
| General Management and Administrative | 52 |
| Design..... | 24 |
| Cost Control | 18 |
| Business Hotel Management..... | 9 |
| Property Management..... | 972 |
| Project Management – back office..... | 20 |
| Project Management – site office | 261 |
| Total | 1,489 |

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

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

INTELLECTUAL PROPERTY RIGHTS

We conduct our business and marketing primarily under our “Skyfame,” “天譽,” “Mr. Fish’s Community” and “Mr. Fish” brand names. As of December 31, 2020, Skyfame Realty (Holdings) Limited had registered three trademarks listed as below in China:



天 譽

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



As of December 31, 2020, we had also registered two domain names with Internet Corporation for Assigned Names and Numbers.

As of December 31, 2020, we had not encountered any material third-party intellectual property infringement claims.

LEGAL PROCEEDINGS

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

DESCRIPTION OF THE ISSUER

FORMATION

The Issuer is a BVI business company with limited liability incorporated under the BVI Business Companies Act, 2004 (as amended) of the British Virgin Islands on March 8, 2019. The Issuer's registration number is 2008025. Its registered office is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Issuer is an indirect wholly owned subsidiary of the Company.

BUSINESS ACTIVITY

The Issuer does not carry on any business activity whatsoever other than in connection with the issuance of the New Notes or other indebtedness and any other activities incidental thereto.

FINANCIAL STATEMENTS

Under the British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep records and underlying documentation of the Issuer in such form as are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

DIRECTORS

The directors of the Issuer are YU Pan, WANG Chenghua, JIN Zhifeng, CHAN Hiu Mei, HUANG Tianbo and CHENG Ching Man. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer. The Issuer does not have any employees.

REGULATORY OVERVIEW

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

THE PRC LEGAL SYSTEM

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

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

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

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

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

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

THE PRC JUDICIAL SYSTEM

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

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

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

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

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

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

ESTABLISHMENT OF A REAL ESTATE DEVELOPER

General Regulations

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

According to the Law on Administration of Urban Real Estate of the PRC (中華人民共和國城市房地產管理法, the “Urban Real Estate Law”) promulgated by the Standing Committee of NPC on July 5, 1994, becoming effective in January 1995, and newly amended on August 26, 2019 and took effective on January 1, 2020. Real estate development refers to the act of constructing infrastructure and buildings on state-owned land, the land use rights of which have been legally acquired; and a real estate developer is defined as an enterprise which engages in the development and operation of real estate for the purpose of making profits. Under the Administrative Regulations on Urban Real Estate Development and Operation (城市房地產開發經營管理條例, the “Development and Operation Regulations”) promulgated by the State Council on July 20, 1998 and newly amended on March 27, 2020 and took effective on the same date. An enterprise which is to engage in the development of real estate shall satisfy the following requirements:

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

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

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

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

QUALIFICATIONS OF A REAL ESTATE DEVELOPMENT ENTERPRISE

Under the Development and Operation Regulations, the real estate development authorities shall examine applications for registration of qualifications of a real estate developer when it reports its establishment, by considering its assets, professional personnel and business results. A real estate developer shall only undertake real estate development projects in compliance with the approved qualification registration.

Under the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定), or the Provisions on Administration of Qualifications, promulgated by Ministry of Construction and implemented on March 29, 2000 and revised on May 4, 2015 and December 22, 2018, a real estate development enterprise must apply for registration of its qualification according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of properties without a qualification classification certificate for real estate development. Ministry of Construction oversees the qualifications of real estate developers with national operations, and local Ministry of Construction authorities at or above the county level oversee the qualifications of local real estate developers.

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

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

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

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

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

DEVELOPMENT OF REAL ESTATE PROJECTS

Land for Real Estate Development

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

On April 12, 1988, NPC amended the Constitution, permitting the legal transfer of land use right. On December 29, 1988, August 29, 1998, August 28, 2004, and newly amended on August 26, 2019, the Standing Committee of NPC amended the "Land Administration Law of the PRC" (中華人民共和國土地管理法), permitting the legal transfer of land use right.

Under the Interim Regulations on Grant and Assignment of the State-owned Urban Land Use Right of the PRC (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), the “Interim Regulations on Grant and Assignment”) promulgated by the State Council on May 19, 1990, China adopts a system of granting and assigning state-owned land use right. A land user shall pay a land premium to the State as the consideration for the grant of the land use right by the State for a specified period of time, during which the land user may assign, lease, mortgage or otherwise commercially exploit the land use right. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authorities at city or county level shall enter into a land grant contract with the land user to grant land use right. The land user shall pay the land premium as stipulated by the land grant contract. After paying the land premium in full, the land user may register with the land administration authorities and obtain a land use rights certificate evidencing the acquisition of land use right.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On May 13, 2011, Ministry of Land and Resources issued the Opinions on Maintaining and Improving the System for the Grant of Land by way of Tender, Auction and Listing (關於堅持和完善土地招標拍賣掛牌出讓制度的意見). According to the opinions, on the basis of determining the base price of land grant in accordance with the law, factors affecting the development and utilization of land, such as land price and time of payment, development and construction cycle, construction requirements, degree of economical and intensive use of land and performance of previous grant contracts by the enterprises, shall be taken as bid evaluation conditions.

Use of Land

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

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

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

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

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

Commencement of Development of a Real Estate Project

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

Idle Land

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

According to the Regulations on the Disposal of Idle Land (閒置土地處置辦法) promulgated by Ministry of Land and Resources on April 28, 1999, amended on June 1, 2012 and taking effect from July 1, 2012, land with the following conditions is considered to be idle:

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

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

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

Planning of a Real Estate Project

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

Under the Law on Urban and Rural Planning of the PRC (中華人民共和國城鄉規劃法) promulgated by the Standing Committee of NPC on October 28, 2007, effective from January 1, 2008 and newly amended on April 23, 2019, a real estate developer shall apply for the construction work planning permit from the competent authorities of urban and rural planning under the People's Government at city or county level for project construction.

Construction of a Real Estate Project

According to the Measures for Administration of Construction Permit for Construction Projects (建築工程施工許可管理辦法) promulgated by MOHURD on June 25, 2014, becoming effective from October 25, 2014 and amended on September 28, 2018, a developer engaging in the construction and decoration of various kinds of houses and buildings as well as the ancillary facilities shall apply for a construction permit from the competent construction administration authorities at county level or above where the construction is located before the commencement of the construction.

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

Completion of a Real Estate Project

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

Construction Safety

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

Under the Construction Law of the PRC (中華人民共和國建築法) promulgated and revised by the Standing Committee of NPC in November 1997 and newly revised on April 23, 2019, respectively, general construction contractor shall take overall responsibility for the safety in the construction site. Each subcontractor is required to comply with the protective measures adopted by general contractor and to purchase insurance policies covering accident injury for its employees on site.

Civil Air Defense Property

Pursuant to the Law on National Defense of the PRC (中華人民共和國國防法) promulgated by NPC on March 14, 1997, as amended on August 27, 2009, national defense assets are owned by the state. Pursuant to the Law on Civil Air Defense of the PRC (中華人民共和國人民防空法), or the Civil Air Defense Law, promulgated by NPC on October 29, 1996, as amended on August 27, 2009, civil air defense is an integral part of national defense. The Civil Air Defense Law encourages the public to invest in the construction of civil air defense properties and investors in civil air defense properties are permitted to use (including lease) and manage civil air defense properties in time of peace and profit therefrom. However, such use may not impair their functions as civil air defense properties. The design, construction and quality of civil air defense properties must conform to the protection and quality standards established by the state. On November 1, 2001, the National Civil Air Defense Office issued the Administrative Measures for Developing and Using the Civil Air Defense Property at Ordinary Times (人民防空工程平時開發利用管理辦法) and the Administrative Measures for Maintaining the Civil Air Defense Property (人民防空工程維護管理辦法), which specify how to use, manage and maintain civil air defense properties.

Insurance of a Property Project

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

Environmental Protection

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

PROPERTY MANAGEMENT

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

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

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

INTELLECTUAL PROPERTY RIGHTS

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

Regulations on Trademarks

The Trademark Law of the PRC (中華人民共和國商標法) was promulgated in August 1982 (newly amended on April 23, 2019 and took effective on November 1, 2019) and Implementation Regulations on the Trademark Law of the PRC (中華人民共和國商標法實施條例) was promulgated on August 3, 2002 by the State Council and amended on April 29, 2014. These laws and regulations provide the basic legal framework for the regulations of trademarks in China. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

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

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

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

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

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

Regulations on Domain Names

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

The Measures on Top Level Domain Names Dispute Resolution (國家頂級域名爭議解決辦法) were promulgated by the China Internet Network Information Center on June 18, 2019 and became effective on the same date. These measures require domain name disputes to be submitted to institutions authorized by the China Internet Network Information Center for resolution.

LABOR PROTECTION AND SOCIAL INSURANCE

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

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

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

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

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

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

According to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated on April 3, 1999 and newly amended on March 24, 2019, housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer shall belong to the individual employee.

MAJOR TAXES APPLICABLE TO REAL ESTATE DEVELOPERS AND OPERATORS

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

Corporate Income Tax

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

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

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

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

On May 12, 2010, SAT issued the Circular on Issues Concerning Conditions for Confirmation of the Completion of Real Estate Development Products (關於房地產開發企業開發產品完工條件確認問題的通知), which clarifies the conditions for confirming the completion of real estate development products. According to the circular, regardless of whether the project quality has passed the inspection and acceptance, or whether the completion filing and final accounting procedures have been completed, any real estate development product meeting one of the following conditions shall be deemed as a completed development product: (1) The enterprise starts to process the delivery procedure of the development product (including the check-in procedure); (2) The development product has started to be put into use. The developer shall timely settle the tax costs of the development product, and compute its taxable income of the year.

On December 10, 2009, SAT issued the SAT Notice of State Administration of Taxation on Strengthening Administration of Corporate Income Tax on Income from Transfer of Equity by Non-resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) with retrospective effect from January 1, 2008, which was abolished on December 1, 2017, pursuant to which, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company (an “Indirect Transfer”), and the overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not tax foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority relating to the PRC resident enterprise. Using a “substance over form” approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such an Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income in respect of the transaction.

On February 3, 2015, the SAT issued the SAT Announcement of the State Administration of Taxation on Several Issues Relating to Enterprise Income Tax on Transfer of Assets between Non-resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告), “the SAT Circular No. 7”, which was respectively amended on October 17, 2017 and December 29, 2017 and abolished certain provisions in SAT Circular No. 698 and provided more guidance on a number of issues in the SAT Circular No. 698. The SAT Circular No. 698 was completely abolished on December 1, 2017.

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

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

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

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

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

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

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

Value-Added Tax (VAT)

Pursuant to the Notice on Adjustment of Transforming Business Tax to Appreciation Tax (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36) issued on March 23, 2016 and amended on July 1, 2017 and April 1, 2019 respectively. The pilot program of replacing business tax with appreciation tax shall be implemented nationwide effective from May 1, 2016 and all business tax payers in industry areas, including construction, real estate, finance and consumer service, shall be included in the scope of the pilot program and pay appreciation tax instead of business tax. According to the said regulation, the sale of self-developed old real estate projects (refers to real estate projects launched time before April 30, 2016 stating on the construction works commencement permit) by common taxpayer among real estate developers shall be subject to a simple tax rate of 5%, whereas, for self-developed real estate after May 1, 2016 by common taxpayer among real estate developers shall be subject to a general method tax rate of 5%. Moreover, real estate developers selling real estate project by advance payment will be subject to an appreciation tax of 3% when receiving the advance payment. Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (關於調整增值稅稅率的通知) (Cai Shui [2018] No. 32) promulgated by MOF and SAT on April 4, 2018 which took effective from May 1, 2018, the deduction rates of 11.0% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 10.0%. According to the Circular on Policies Concerning

Deepening the Reform of Value Added Tax (關於深化增值稅改革有關政策的公告) (“Circular 39”) promulgated by MOF, SAT and General Administration of Customs on March 20, 2019, which will take effective on April 1, 2019, the deduction rates of 10.0% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 9.0%.

Land Appreciation Tax (LAT)

Under the Interim Regulations on Land Appreciation Tax of the PRC (中華人民共和國土地增值稅暫行條例) promulgated by the State Council on December 13, 1993 and effective from January 1, 1994 and amended on January 8, 2011, as well as its implementation rules issued on January 27, 1995, land appreciation tax is payable on the appreciation value derived from the transfer of land use rights and buildings or other facilities on such land, after deducting the “deductible items” that include the followings:

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

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

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

Exemption from LAT is available to the following cases:

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

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

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

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

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

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

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

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

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

On May 25, 2010, SAT published the Circular on Strengthening the Collection and Administration of Land Appreciation Tax (關於加強土地增值稅徵管工作的通知) to require all local governments to scientifically formulate the withholding tax rate and strengthen the withholding of land appreciation tax. According to the circular, all local governments shall make adjustments to the current withholding rate. Apart from indemnificatory housing, the withholding rate of provinces in the eastern region shall not be lower than 2%, the provinces in the central and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%. The local governments shall determine the appropriate withholding rates applicable to different types of real estates.

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

Deed Tax

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

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

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

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

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

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

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

Urban Land Use Tax

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

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

Real Estate Tax

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

Stamp Duty

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

URBAN MAINTENANCE AND CONSTRUCTION TAX

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

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

Education Surcharge

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

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

FOREIGN EXCHANGE CONTROL

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

General Regulations

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

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

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

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

According to the Notice on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises amended on December 30, 2019 (關於改革外商投資企業外匯資本金結匯管理方式的通知, the SAFE Notice 19), for actual needs of business operation, foreign invested enterprises may convert their foreign currency capital into Renminbi at their own discretions. The ratio of the discretionary settlement of foreign currency capital of foreign enterprises is tentatively set at 100%, which is subject to adjustment by SAFE in accordance with the status of international balance of payment. In addition, the foreign currency registered capital of a foreign-invested enterprise that has been settled in Renminbi may only be used for purposes within the business scope approved by the applicable governmental authority and shall not be used for the following purposes: (i) directly or indirectly used for expenditures prohibited by the laws and regulations or beyond the enterprise’s business scope; (ii) directly or indirectly used for securities investments unless otherwise specified by laws and regulations; (iii) directly or indirectly used for providing Renminbi entrusted loans (unless permitted in the business scope),

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

Renminbi Exchange Rate Regulations

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

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

Foreign Exchange Registration of Offshore Special Purpose Companies

On October 21, 2005, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知, “No. 75 Circular”), which became effective abolished on April 7, 2014 by the Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) respectively. According to the circular, a “special purpose company” refers to an offshore company established or indirectly controlled by a PRC resident for the purpose of carrying out offshore financing with his/her assets or equity interest in a domestic enterprise. Prior to establishing or controlling such a special purpose company, each PRC resident must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch.

SAFE issued the Circular on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (關於進一步改進和調整直接投資外匯管理政策的通知) on November 19, 2012, effective on December 17, 2012 and amended on May 4, 2015, October 10, 2018 and December 30, 2019 respectively. The circular contains an attachment which made specific provisions on the implementation of various matters, including the foreign exchange registration and alteration of special purpose company, establishment of special purpose company and merger and acquisition of domestic enterprises, as well as foreign exchange registration of newly-established foreign-invested enterprises and merger and acquisition of domestic enterprises by foreign-invested enterprises.

On July 4, 2014, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知, “No. 37 Circular”) to replace the No. 75 Circular and further simplify and facilitate the cross-border capital transactions involved in the investment and financing activities carried out by domestic residents through special purpose companies, which became effective on the date of promulgation. According to the No. 37 Circular, a “special purpose company” refers to an offshore company that are directly established or indirectly controlled for the purpose of investment and financing by Mainland China residents (including Mainland China institutions and Mainland China individuals) with their legitimate holdings of the assets or interests in Mainland China enterprises, or their legitimate holdings of overseas assets or interests. Prior to making contribution to a special purpose company with legitimate holdings of domestic or overseas assets or interests, a Mainland China resident shall apply to the relevant local SAFE branch for foreign exchange registration of overseas investment. The No. 75 Circular was repealed on the effective date of the No. 37 Circular.

On February 13, 2015, SAFE issued the Circular on Issues Relating to the Policies of the Foreign Exchange Administration in Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知, “No. 13 Circular”), which newly amended on December 30, 2019, to further simplify the procedures of foreign exchange administration applicable to direct investment. According to the No. 13 Circular, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment including the foreign exchange registration under the No. 37 Circular.

Special Foreign Exchange Regulations on Real Estate Enterprises

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

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

DIVIDEND DISTRIBUTION

According to the Company Law of the PRC (中華人民共和國公司法), the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法) and its Implementing Regulations, sino-foreign equity joint venture enterprises, or EJV, in China may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and

regulations. After making up for any deficit in prior years pursuant to the PRC laws, an EJV in China is required to set aside each year as general reserves at least 10% of its after-tax profit, determined in accordance with PRC accounting standards and regulations, until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends.

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

ENVIRONMENTAL LAW

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

| Name | Age | Position |
|---|-----|--------------------------------------|
| Mr. YU Pan (余斌)..... | 56 | Chairman and Chief Executive Officer |
| Mr. WEN Xiaobing (文小兵)..... | 52 | Deputy Chief Executive Officer |
| Mr. WANG Chenghua (王成華)..... | 43 | Executive Director |
| Mr. JIN Zhifeng (金志峰)..... | 57 | Executive Director |
| Mr. WONG Lok (黃樂)..... | 63 | Non-executive Director |
| Mr. CHOY Shu Kwan (蔡澍鈞)..... | 66 | Independent non-executive Director |
| Mr. CHENG Wing Keung, Raymond (鄭永強)..... | 61 | Independent non-executive Director |
| Ms. CHUNG Lai Fong (鍾麗芳)..... | 53 | Independent non-executive Director |

Executive Directors

Mr. YU Pan (余斌), aged 56, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. He has been the controlling shareholder of the Company ever since then. Mr. YU has over 30 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, Guangzhou Tianyu Holdings Group Limited (廣州市天譽控股集團有限公司) (“**GZ Tianyu**”), which was set up in July 1997 from which the Company acquired some projects in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing (文小兵), aged 52, has been appointed as executive director in November 2013. He is also the deputy chief executive officer of the Group and president of Guangzhou head office in charge of the daily operations of Guangzhou head office and the property development business in the PRC. Mr. WEN holds a Bachelor Degree in History from Peking University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 30 years of working experience in managerial positions in corporations in the PRC. Before transferred to the Group, Mr. WEN joined GZ Tianyu in March 1999. Mr. WEN also acts as the director of Lvjing Holding Co., Ltd. (a PRC company listed in Shenzhen Stock Exchange, Stock Code: 000502.SZ) since April 2019.

Mr. WANG Chenghua (王成華), aged 43, was appointed as executive director in October 2018. Mr. Wang is the president of the Group in charge of the Company’s mergers and acquisitions, corporate finance, overseas investment and business explorations. Mr. WANG holds a Master Degree in economic and obtained a Level C Certificate from International Project Management Association (IPMA) in 2003. Mr. WANG is also a member of CPA Australia. Prior to join the Company, he had over 12 years of working experience in merger and acquisition, corporate finance and finance management in a Global 500 company.

Mr. JIN Zhifeng (金志峰), aged 57, joined the Company in April 2019 and was appointed as executive director in October 2019. Mr. JIN holds a doctor’s degree in Business Administration. He is a public valuer certified by the Ministry of Finance of the People’s Republic of China, a member of the China Appraisal Society and a certified senior economist. Since April 2019, he has acted as the executive director and Chairman of Lvjing Holding Co.,Ltd. (a PRC company listed in the Shenzhen Stock Exchange, Stock code: 000502.SZ). Mr. JIN had held various senior executive positions at a nationwide asset management company in China with extensive experience in investment banking and asset management. Prior to joining the Company, he was the executive director and CEO in Tianli Holdings Group Limited (Stock code: 00117.HK).

Non-executive Director

Mr. WONG Lok (黃樂), aged 63, joined the Company in August 2005 as an executive director and was re-designated as non-executive director in January 2019. Before his retirement, Mr. WONG worked as senior management in corporations engaged in property and general trading in Hong Kong and the PRC for many years.

Independent non-executive Directors

Mr. CHOY Shu Kwan (蔡澍鈞), aged 66, joined the Company in December 2004. Mr. CHOY holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his retirement in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock Code: 119).

Mr. CHENG Wing Keung, Raymond (鄭永強), aged 61, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law (中國政法大學), the PRC. He has been appointed by former Justice Ma of the Court of Final Appeal as a Practising Solicitor Member of the Solicitors Disciplinary Tribunal Panel with effect from October 4, 2017. Besides, Mr. CHENG has also been appointed by The Government of Hong Kong Special Administrative Region as a member of the Panel of the Board of Review (Inland Revenue Ordinance) with effect from January 1, 2018. Mr. CHENG has over 33 years of experience in legal, corporate finance, company secretarial and listing affairs. He is an independent non-executive director in a listed company in Hong Kong, namely Elife Holdings Limited (Stock Code: 223).

Ms. CHUNG Lai Fong (鍾麗芳), aged 53, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Chartered Governance Institute (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 25 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate governance.

COMPANY SECRETARY

Mr. HUANG Tianbo (黃天波), aged 35, joined the Company in May 2019 and was appointed as the Company Secretary of the Company in August 2019. Mr. HUANG holds a Master's degree in Corporate Governance. He is an associate member of the Hong Kong Institute of Chartered Secretaries and is a qualified board secretary by the Shanghai Stock Exchange. Mr. HUANG has extensive experience in the matters relating to the merger & acquisition and restructuring, corporate governance, investor relationship management and compliance issues of the public listed companies in the PRC and Hong Kong.

SENIOR MANAGEMENT

Mr. ZHANG Kongxi (張孔喜), aged 39, joined the Group in December 2019. Mr. ZHANG is the Vice Chairman of the Guangzhou head office and is responsible for the management of the strategy development centre and the commercial hotels management centre. Mr. ZHANG graduated from the China University of Political Science and Law (中國政法大學), majoring in international economic law. He has served as senior management in a number of listed companies and has over 15 years' practical experience in various fields such as culture and media, product structuring, and real estate.

Mr. LIN Shengjie (林聖傑), aged 55, is the vice president of the Guangzhou head office in charge of all onshore financing in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) and has over 30 years of working experience in finance and accounting in property development, direct investment in the PRC, Thailand and Hong Kong. Before transferred to the Group, Mr. LIN joined GZ Tianyu in January 2002.

Mr. ZENG Fanyou (曾凡友), aged 45, joined the Group in June 2016 and is the vice president of Guangzhou head office in charge of sales and marketing management of property development. Mr. ZENG graduated from Henan University School of Economics (河南財經學院) with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 20 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. (珠江房地產開發有限公司) and New World China Land Limited (新世界中國地產有限公司) in the past.

Mr. TAN Yongqiang (譚永強), aged 57, joined the Group in October 2016 and is the vice president of Guangzhou head office in charge of city development business that focus on the urban renewal projects in Guangzhou. Mr. TAN graduated from South China University of Technology (華南理工大學) with Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 24 years of working experience in project management and has worked in large-scale group in the PRC such as Yuexiu Group.

Mr. CHEN Jianwen (陳健文), aged 41, joined the Group in August 2018 and is the vice president of Guangzhou head office in charge of all the planning and management of financial accounting, treasury and tax affairs of PRC operations. Mr. CHEN graduated from Sun Yat-sen University (中山大學) with a bachelor's degree in management. He also holds the certificates of the Chinese Certified Public Accountant (CPA), Certified Tax Agents (CTA) and the Certified Internal Auditor (CIA). Mr. CHEN has worked in one of the big four international accounting firms as well as many well-known and listed real estate groups in China as a senior financial management. He has over 18 years of solid experiences in financial management.

Mr. SONG Tianyu (宋天宇), aged 38, joined the Group in December 2018 and is the vice president of Guangzhou head office in charge of the Group's human resources and administrative management. Mr. SONG graduated from Xiamen University (廈門大學) with a major in business administration. He has over 14 years of experience in administrative management. Prior to joining the Group, Mr. Song worked in a Global 500 company in charge of administration management for years.

Ms. LIU Yun (劉雲), aged 44, joined the Group in February 2019 and is the vice president of Guangzhou head office, responsible for the Group's contract tendering and cost management. Ms. LIU graduated from Jiangxi University of Science and Technology (江西理工大學), major in engineering cost management, and holds a qualification certificate of intermediate engineer in construction cost. She was a senior management member of a well-known listed mainland real estate development group and has over 23 years of extensive experience in bidding and procurement, budgeting and final costs assessment, contract management and legal affairs.

Mr. XU Jiancheng (徐健成), aged 48, joined the Group in March 2019 and is the vice president of Guangzhou head office in charge of the Group's design management. Mr. XU graduated from South China University of Technology (華南理工大學) with a bachelor's degree in architecture, and holds the certificates of National Grade-1 Architect and Senior Engineer. He worked for a well-known listed mainland real estate development group for 20 years and had held various positions including vice president of design, chief architect and general manager of design centre, with over 22 years of extensive working experience in this field.

Mr. XU Jihong (徐繼紅), aged 47, joined the Group in May 2019 and is the vice president of Guangzhou head office in charge of the Group's engineering management. Mr. XU graduated from the Construction Engineering Department of South China University of Technology (華南理工大學) with a bachelor's degree in industrial and civil construction engineering. He has served as a key engineering manager in a number of well-known listed mainland real estate development group and has over 22 years extensive experience in regional engineering operation management and establishing regional engineering operation management.

Mr. YAN Lixiang (晏理想), aged 35, joined the Group in May 2019 and is the vice president of Guangzhou head office in charge of the Group's operation management. Mr. YAN holds a bachelor's degree and the certificates of National Constructor and Senior Engineer. He has long been engaged as a senior management member in a well-known listed mainland real estate development group. He has over 13 years of extensive experience in real estate development and operation management. He is mainly responsible for the establishment and improvement of the Group's overall operation and production management.

Ms. CHAN Hiu Mei (陳曉薇), aged 42, joined the Company in October 2019 as Vice President – Finance in charge of all finance affairs at the corporate level of the Group. Ms. CHAN graduated from The Hong Kong University of Science and Technology with a bachelor’s degree in Business Administration major in Economic. She is a member of the Hong Kong Institute of Certified Public Accountants and Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. CHAN worked in KPMG Huazhen LLP and acted as head of finance department in other companies. She also worked in a company listed on the Main Board of The Stock Exchange of Hong Kong Limited as Chief Financial Officer and Company Secretary. Ms. CHAN has over 19 years of experience in auditing, accounting, financial management and corporate governance matters and has been involved in a number of initial public offering transactions and capital market transactions.

BOARD COMMITTEES

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

Audit Committee

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

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

Remuneration Committee

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

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

Nomination Committee

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

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

Risk management Committee

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

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

SHARE OPTIONS SCHEME

2015 Scheme

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

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

As of the date of this offering memorandum, 73,000,000 share options (before adjustment for share subdivision of the Company and equivalent to 219,000,000 subdivided shares) have been granted under the 2015 Scheme, of which 136,140,967 share options (after adjustment for share subdivision of the Company) were exercised or cancelled in accordance with the terms of the 2015 Scheme and the number of share options outstanding is 82,859,033 (after adjustment for share subdivision of the Company). While the number of outstanding share options granted under the 2005 Scheme as at the date of this offering memorandum is 9,529,291 (after adjustment for share subdivision of the Company).

2018 Scheme

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

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

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

As of the date of this information memorandum, an aggregate of HK\$167,620,000 was contributed to the trust account held by the trustee for the Share Award Scheme Trust and out of this trust fund an aggregate of 158,278,000 shares of the Company was purchased. As of the date of this information memorandum, 143,500,000 shares were conditionally awarded to 58 selected employees (including directors of the Company) of the Company of which 18,000,000 shares were canceled due to the resignation or retirement of 12 employees and an aggregate of 43,037,158 shares are vested to the employees of the Group.

PRINCIPAL SHAREHOLDERS

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

| Name of shareholder | Nature | Number of ordinary shares held | Percentage of shareholding in our Company ⁽²⁾ |
|--|--|--------------------------------|--|
| YU Pan ⁽¹⁾ | Interest of controlled corporation and/or beneficial owner | 5,763,869,721 (L) | 72.54 (L) |
| Sharp Bright International Limited (“Sharp Bright”) ⁽¹⁾ | Interest of controlled corporation | 5,763,869,721 (L) | 63.13 (L) |
| Cosmos Tianyu Holdings Limited (“Cosmos Tianyu”) ⁽¹⁾ | Beneficial owner | 5,763,869,721 (L) | 63.13 (L) |
| Haitong International Securities Company Limited..... | Person having a security interest in shares | 3,000,000,000 (L) | 37.76 (L) |

Notes:

- (1) The 5,763,869,721 Shares comprised (i) 748,036,500 Shares directly held by Mr. YU Pan; (ii) 6,333,333 Shares granted by the Company to Mr. Yu Pan under the 2018 scheme and is held by a trustee; and (iii) 5,015,833,221 Shares held directly by Cosmos Tianyu. As the entire issued share capital of Cosmos Tianyu was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Cosmos Tianyu was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. Among the total of 5,763,869,721 Shares, 3,000,000,000 Shares held by Cosmos Tianyu were charged in favour of Haitong International Securities Company Limited pursuant to a security deed dated February 1, 2021.
- (2) For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 7,945,944,074 Shares in issue as of the date of this offering memorandum.

RELATED PARTY TRANSACTIONS

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

The table below sets forth certain material transactions between us and our related parties during the years ended December 31, 2018, 2019 and 2020⁽¹⁾:

| | For the year ended December 31, | | | |
|--|---------------------------------|---------|--------|---------------------|
| | 2018 | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ (unaudited) |
| | (in thousands) | | | |
| Material transactions | | | | |
| Companies beneficially owned by | | | | |
| Mr. YU Pan and his spouse ⁽²⁾ | (45,215) | 140,710 | 1,188 | 182 |
| Compensation of key management | | | | |
| personnel ⁽³⁾ | 33,664 | 50,675 | 48,832 | 7,484 |

Notes:

- (1) Except as disclosed in the table above, Mr. YU Pan and his spouse or a company controlled by him have provided legal charge over 965,580,000 Shares (having adjusted for sub-division of shares) of the Company beneficially owned by Mr. Yu, personal guarantees and corporate guarantee for the Group's bank loans and trust loan in the year of 2018.
- (2) The types of transactions with companies beneficially owned by Mr. YU Pan and his spouse for 2018, 2019 and 2020, include: rental income received from office leasing, management fee paid to a related company, consideration received from disposal of properties under development in Yongzhou Project and consideration paid for acquisition of a subsidiary.
- (3) Compensation of key senior management including short-term benefits, other long-term benefits and equity-settled share-based payment expenses.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness. As of December 31, 2020, our total interest-bearing bank loans and bonds payables in the aggregate amounted to RMB8,691.4 million (US\$1,332.0 million). Subsequent to December 31, 2020, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property development, repay existing indebtedness and for general corporate purposes. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

LOAN AGREEMENTS IN THE PRC

As of December 31, 2020, certain of our PRC subsidiaries have entered into loan agreements with local branches of various PRC banks and trust companies, including but not limited to Agricultural Bank of China Limited, Guangzhou Rural Commercial Bank Co. Ltd., Bank of China Limited, China Cinda Asset Management Holdings Company Limited, Shanghai Aijian Trust Co., Ltd and Dongguan Trust Co., Ltd. These loans are mainly used to finance payment of development costs and repay the other loans. For bank loans and trust loans to finance development costs, they have terms ranging from one to 15 years, which generally correspond to the construction periods of the particular projects. As of December 31, 2020, the aggregate outstanding amount under these bank loans and trust loans totaled approximately RMB3,514.1 million (US\$538.5 million), of which RMB1,145.5 million (US\$175.5 million) was due within one year, and RMB2,368.6 million (US\$363.0 million) was due more than one year. Our PRC loans are typically secured by land use rights and properties as well as guaranteed by certain of our PRC subsidiaries, the Company and Mr. Yu Pan and his spouse.

Interest

The principal amounts outstanding under our PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2020, the weighted average effective interest rate on the aggregate outstanding amount of our PRC bank loans and trust loans was 7.0% per annum and 11.9% per annum respectively.

Covenants

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

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

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

Events of Default

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

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee agreements with PRC banks in connection with some of the PRC loans, pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these loans. Further, as of December 31, 2020, all of the PRC loans were secured by our assets which includes properties held for sale, properties under development, property, plant and equipment, land use rights, investment properties and equity interests of certain subsidiaries.

Dividend Restriction

As of December 31, 2020, four of our PRC subsidiaries under certain financing agreements have agreed not to distribute any dividend until the borrower fully repays the principal and interest of the loan.

OFFSHORE FINANCING AGREEMENTS

Anglo MTB Programme

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

As of the date of this offering memorandum, we issued, under the Anglo MTB Programme, to some professional investors unsecured bonds in total of 10 series with an aggregate principal amount of HK\$3.3 billion (US\$425.8 million) of which principal amount of HK\$290.0 million (US\$37.4 million) due on September 12, 2024 (the "Anglo 2024 Bonds"), HK\$80.0 million (US\$10.3 million) due on September 12, 2025 (the "Anglo 2025 Bonds"), HK\$100.0 million (US\$12.9 million) due on September 12, 2026 (the "Anglo 2026 Bonds"), HK\$570.0 million (US\$73.5 million) due on November 14, 2031 (the "Anglo 2031 Bonds"), HK\$960.0 million (US\$123.9 million) due on November 14, 2032 (the "Anglo 2032 Bonds") and HK\$1,300 million (US\$167.7 million) due on November 14, 2033 (the "Anglo 2033 Bonds"). The Anglo 2024 Bonds, Anglo 2025 Bonds and 2026 Bonds carry a coupon interest at 7.5%, whilst the Anglo 2031 Bonds, Anglo 2032 Bonds and Anglo 2033 Bonds carry a coupon interest at 8.0% per annum. Interests chargeable on the bonds became payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually until maturity. The bonds are amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

Apastron MTB Programme

On June 16, 2017, we established a medium term bond programme with an offering size of up to HK\$1.5 billion which was amended to HK\$2.5 billion (US\$322.6 million) by our board resolution adopted on January 8, 2018 (the “Apastron MTB Programme”). According to the relevant arranger agreement, we have appointed Apastron Capital Limited in the capacity of placing agent under a placing agreement to place the bonds and the holders of the bonds are entitled to the benefits of a deed poll constituting the bonds.

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

As of the date of this offering memorandum, we have issued, under the Apastron MTB Programme, to some professional investors unsecured bonds respectively with an aggregate principal amounts of HK\$10.0 million (US\$1.3 million) due on May 15, 2027 (the “Apastron 2027 Bonds”) and HK\$1,880.0 million (US\$241.5 million) due on June 16, 2034 (the “Apastron 2034 Bonds”). We may no longer take down under the Apastron MTB Programme as the issuance period of the programme expired on June 16, 2018. Interests chargeable on the bonds became payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually in arrears first payable on June 16, 2019 and last payable on June 16, 2026 for the Apastron 2027 Bonds and June 16, 2033 for the Apastron 2034 Bonds. The bonds are amortised at the effective interest method by applying the effective interest rate ranging from 10.92% to 13.14% per annum.

The 2022 Notes

On July 8, 2019, September 9, 2019 and November 14, 2019, we issued 13.0% senior notes due 2022 in an aggregate principal amount of US\$274.0 million (the “2022 Notes”) pursuant to an indenture (as amended and supplemental from time to time, the “2022 Notes Indenture”). As of the date of this offering memorandum, an aggregate principal amount of the 2022 Notes of US\$274.0 million remains outstanding.

Interest

The 2022 Notes will bear interest at the rate of 13.0% per annum, payable semi-annually in arrears on January 8 and July 8 of each year, commencing January 8, 2020.

Covenants

Subject to conditions and exceptions, the 2022 Notes Indenture contains certain covenants, restricting us and our Restricted Subsidiaries to, among other things:

- incur additional indebtedness and issue disqualified and preferred stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee any indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;

- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with certain shareholders or affiliates; and
- effect a consolidation or merger.

Events of Default

The 2022 Notes Indenture contains certain customary events of default, including default in the payment of principal of the 2022 Notes when become due, default payment of interest when due and continued for 30 days, breaches of covenant and other events of default specified in the terms and conditions of the 2022 Notes.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2022 Notes at a purchase price of 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2022 Notes is July 8, 2022.

We shall, at the option of any Holder, repurchase all of the 2022 Notes held by such Holder on July 8, 2021 at 100% of the principal amount of the 2022 Notes plus accrued and unpaid interest, if any, to (but not including) the repurchase date.

The 2021 Notes

On July 21, 2020, we issued 13.0% senior notes due 2021 in an aggregate principal amount of US\$87.5 million (the "2021 Notes") pursuant to an indenture (as amended and supplemental from time to time, the "2021 Notes Indenture"). As of the date of this offering memorandum, an aggregate principal amount of the 2021 Notes of US\$87.5 million remains outstanding.

Interest

The 2021 Notes will bear interest at the rate of 13.0% per annum, payable in arrears on January 21, 2021 and July 20, 2021.

Covenants

Subject to conditions and exceptions, the 2021 Notes Indenture contains certain covenants, restricting us and our Restricted Subsidiaries to, among other things:

- incur additional indebtedness and issue disqualified and preferred stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee any indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;

- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with certain shareholders or affiliates; and
- effect a consolidation or merger.

Events of Default

The 2021 Notes Indenture contains certain customary events of default, including default in the payment of principal of the 2021 Notes when become due, default payment of interest when due and continued for 30 days, breaches of covenant and other events of default specified in the terms and conditions of the 2021 Notes.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2021 Notes at a purchase price of 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2021 Notes is July 20, 2021.

BEA Facility Loan

On August 25, 2020, the Bank of East Asia, Limited, as the lender, issued a facility letter to our wholly owned subsidiary, Waymax Investments Limited, for a total facility limit of approximately HK\$222.3 million (US\$31.5 million) (the "BEA Facility Loan"). As of the date of this offering memorandum, HK\$219.1 million (US\$33.6 million) of the loan has been withdrawn and remains outstanding with a weighted average effective interest rate of 2.2% per annum.

Covenants

Our offshore loan facility agreements contain customary covenants and restrictions, including, amongst others, negative pledge on assets (with certain exemptions), financial covenants including maintaining its financial condition to the satisfaction of the lender and providing financial statements to the lender in due course.

Events of Default

These offshore facilities contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of fiduciary or statutory duties. If an event of default occurs, the lender shall be entitled to recover full payment or security from the borrower or the guarantor. The lender has the overriding right at any time to request the borrower to immediately make payment and/or cash collateralisation of all or any sum actually or contingently owing to the lender under the facility.

IB Facility Loan

On December 19, 2018, we entered into a facility agreement with Industrial Bank Co., Ltd. Hong Kong Branch, as the lender, for a term loan in the aggregate principal amount of HK\$750.0 million. The loan is repayable in full 24 months from the first utilization date, which may be extended in accordance with the facility agreement. In December 2020, the loan was extended to 12 months from the final repayment date. The principal amount outstanding under the loan during the extended 12 months bears an interest at (i) 6.5% plus the applicable HIBOR per annum. As of the date of this offering memorandum, HK\$500.0 million (US\$76.6 million) of the loan remains outstanding.

Covenants

Our offshore loan facility agreements contain customary covenants and restrictions, including, amongst others, negative pledge on assets (with certain exemptions), financial covenants including consolidated tangible net worth, consolidated net debt and consolidated EBITDA.

Events of default

These offshore facilities contain certain customary events of default, including non-payment of principal or interest, cross default, insolvency and breaches of its terms. If an event of default occurs, all amounts outstanding including all interest accrued thereon may become immediately due and payable.

2018 Venture Smart Bonds

On January 10, 2018, we executed a bonds instrument pursuant to which we issued fixed coupon unsecured and unsubordinated bonds in the principal amount of HK\$300.0 million (US\$38.7 million) (the “2018 Venture Smart Bonds”) due on the day immediately preceding the third anniversary of the issue date of the bonds. As of the date of this offering memorandum, the 2018 Venture Smart Bonds in principal amount of HK\$104.5 million (US\$16.0 million) were issued and outstanding.

Interest

The 2018 Venture Smart Bonds bear a simple interest rate of 6.0% per annum, payable quarterly in arrears.

Covenants

Subject to conditions and exceptions, the 2018 Venture Smart Bonds contain certain covenants, restricting us from, among other things:

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

Events of Default

The 2018 Venture Smart Bonds contain certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the 2018 Venture Smart Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the 2018 Venture Smart Bonds then outstanding to become due and payable immediately in whole but not in part.

2019 Venture Smart Bonds

On May 31, 2019, we executed a placing agreement pursuant to which Venture Smart Asia Limited as the Arranger and Bookrunner will use its best efforts to procure places to subscribe for the bonds with an aggregate principal amount up to HK\$200.0 million (US\$25.8 million) (the “2019 Venture Smart Bonds”) with a maturity date of two (2) years from the issue date, on the terms and subject to the conditions set out in the Placing Agreement. As of the date of this offering memorandum, the 2019 Venture Smart Bonds in the principal amount of HK\$168.7 million (US\$21.8 million) were issued and outstanding.

Covenants

The 2019 Venture Smart Bonds contain covenants and restrictions, including (i) we will not make any change in the terms and conditions of employment of or terminate the employment of Mr. Yu; and (ii) we shall procure that Mr. Yu shall not resign, quit or otherwise terminate his employment contract or service agreement with us; or if in the case that such resignation or termination shall have occurred, Mr. Yu shall not carry on, engage, invest, participate or otherwise participate in any activities or business which compete or may compete directly or indirectly with our principal business within twelve (12) months from the effective date of such resignation or termination.

Events of default

The 2019 Venture Smart Bonds contain certain customary events of default, including change of control, non-payment of principal or interest, cross default and misrepresentation. If an event of default occurs, the bondholders shall be entitled to demand the Bonds then outstanding to become due and payable immediately in whole but not in part.

2020 Venture Smart Bonds

On April 20, 2020, we executed a placing agreement pursuant to which Venture Smart Asia Limited as the Arranger and Bookrunner will use its best efforts to procure places to subscribe for the bonds with an aggregate principal amount up to HK\$200.0 million (US\$25.8 million) (the “2020 Venture Smart Bonds”). Subject to the conditions set out in the Placing Agreement, after the second anniversary of the date of issue of the bonds, the bondholders may require the Company to redeem the bonds (in whole or in part) in an amount equal to 100% of the outstanding principal amount of the bonds, together with outstanding interest. As of the date of this offering memorandum, the 2020 Venture Smart Bonds in the principal amount of HK\$102.5 million (US\$15.7 million) were issued and outstanding.

Covenants

The 2020 Venture Smart Bonds contain covenants and restrictions, including (i) we will not make any change in the terms and conditions of employment of or terminate the employment of Mr. Yu; and (ii) we shall procure that Mr. Yu shall not resign, quit or otherwise terminate his employment contract or service agreement with us; or if in the case that such resignation or termination shall have occurred, Mr. Yu shall not carry on, engage, invest, participate or otherwise participate in any activities or business which compete or may compete directly or indirectly with our principal business within twelve (12) months from the effective date of such resignation or termination.

Events of default

The 2020 Venture Smart Bonds contain certain customary events of default, including change of control, non-payment of principal or interest, cross default and misrepresentation. If an event of default occurs, the bondholders shall be entitled to demand the Bonds then outstanding to become due and payable immediately in whole but not in part.

Trillion Thrive Bonds

On February 3, 2021, our wholly-owned subsidiary, Rich Apex Limited, as the issuer, and the Company, as the guarantor, entered into a subscription agreement with Trillion Thrive Limited for the issuance and subscription of US\$20,000,000 14.5% senior guaranteed bonds due 2022. As of the date of this offering memorandum, the entire principal amount of the Trillion Thrive Bonds is outstanding.

Covenants

The Trillion Thrive Bonds contain covenants and restrictions, including, among others, negative pledge on assets (with certain exemptions), financial covenants including gearing ratio and providing financial statements to the bondholders in due course.

Events of default

Trillion Thrive Bonds contain certain customary events of default, including change of control, non-payment of principal or interest, cross default and breach of obligations. If an event of default occurs, and upon the expiration of certain grace period, the bondholders shall be entitled to demand the Trillion Thrive Bonds then outstanding to become due and payable immediately in whole.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Issuer” refers only to Skyfame International Holdings Limited, a company incorporated with limited liability in the British Virgin Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries, and the term “Company” refers only to Skyfame Realty (Holdings) Limited (天譽置業(控股)有限公司), a company incorporated in Bermuda with limited liability, and any successor obligor on the Notes, and not to any of its Subsidiaries. The Company’s guarantee of the Notes is referred to as the “Parent Guarantee.”

The Original Notes were issued under an indenture (the “Indenture”), dated as of the Original Issue Date, among the Issuer, the Company and Citicorp International Limited, as trustee (the “Trustee”). The Notes to be issued pursuant to this offering memorandum (the “New Notes”) constitute Additional Notes under the Indenture and are identical in all respects to the Original Notes except for principal amount, issue date and issue price, and the New Notes and the Original Notes will be consolidated and form a single series and vote together as one class on all matters with respect to the Notes. Unless the context requires otherwise, references in this section to “Notes” mean the New Notes and the Original Notes. The total principal amount of the New Notes to be issued is US\$112,000,000. Upon the issue of the New Notes, the aggregate principal amount of outstanding Notes will be US\$192,000,000.

The following is a summary of certain material provisions of the Indenture, the Notes and the Parent Guarantee. 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 and the Parent Guarantee. 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 for inspection during normal business hours 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 ISSUER

The Issuer:

- is a special-purpose financing vehicle established to issue the Notes; and
- has no operating activities other than acting as issuer of Indebtedness, including the Notes and any Indebtedness Guaranteed by a *Pari Passu* Guarantee, and other activities in connection therewith.

See “Risk Factors — Risks Relating to the Notes and the Parent Guarantee — The Issuer is our wholly-owned subsidiary with no operations of its own and will be dependent upon payments from us under intercompany loans and/or pursuant to guarantees to meet its obligations under the Notes.”

BRIEF DESCRIPTION OF THE NOTES

The Notes are:

- general obligations of the Issuer;
- senior in right of payment to any existing and future obligations of the Issuer 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 Issuer (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Company on a senior basis, subject to the limitations described under “— The Parent Guarantee” and in “Risk Factors — Risks Relating to the Notes and the Parent Guarantee”;
- effectively subordinated to the other secured obligations (if any) of the Issuer, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of any subsidiaries of the Issuer.

The Notes will mature on December 16, 2023, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes (including the New 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 (including the New Notes) that are actually issued. The Notes bear interest at 13.0% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on June 16 and December 16 of each year (each an “Interest Payment Date”), commencing June 16, 2021.

Interest on the Notes will be paid to Holders of record at the close of business on June 1 and December 1 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. So long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the holder of the Notes in the Notes register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption,” “Redemption for Taxation Reasons” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Issuer or the Company). In any case in which the date of the payment of principal of, premium or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The New Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by wire transfer in U.S. dollars by the Issuer at the office or agency of the Issuer maintained for that purpose (which currently is the specified office of the Paying Agent, currently located at c/o Citibank, N.A., Dublin Branch, One North Wall Quay, Dublin 1, Ireland), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, if Notes are in certificated form and the Issuer acts as its own paying agent, all payments on the Notes will be made by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to the address of each Holder as such address appears in the Note register maintained by the Registrar (as defined herein). Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

THE PARENT GUARANTEE

The Parent Guarantee is:

- a general obligation of the Company;
- senior in right of payment to all future obligations of the Company expressly subordinated in right of payment to the Parent Guarantee;
- 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);
- effectively subordinated to the secured obligations of the Company, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Company’s Subsidiaries.

Under the Indenture, the Company Guarantees the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Company has (1) agreed that its obligations under the Parent Guarantee will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture (other than in respect of the Parent Guarantee) and (2) waived its right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under the Parent Guarantee.

Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be repaid or restored, the rights of the Holders under the Parent Guarantee will be reinstated with respect to such payment as though such payment had not been made. All payments under the Parent Guarantee are required to be made in U.S. dollars.

RELEASE OF THE PARENT GUARANTEE

The Parent Guarantee may be released in certain circumstances, including:

- upon repayment in full of the Notes; and
- upon a defeasance as described under “— Defeasance — Defeasance and Discharge.”

As of December 31, 2020, the Company and its consolidated subsidiaries had total indebtedness of RMB8,691.4 million (US\$1,332.0 million), of which approximately RMB5,787.3 million (US\$886.9 million) was secured.

As of December 31, 2020, the Subsidiaries had total indebtedness of approximately RMB4,702.7 million (US\$720.7 million) and the Subsidiaries had capital commitments of approximately RMB5,029.0 million (US\$770.7 million) and no material contingent liabilities.

Although the Indenture contains limitations on the amount of additional Indebtedness that Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Subsidiary, the Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

As of the date of this offering memorandum, all of the Company’s Subsidiaries are “Restricted Subsidiaries.” However, under the circumstances described under “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries are generally not subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries do not Guarantee the Notes. Subject to the covenant described under “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries,” none of the Company’s Subsidiaries Guarantees the Notes.

FURTHER ISSUES

Subject to the covenants described below and in accordance with the terms of the Indenture, the Issuer 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 Parent Guarantee) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted by the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock.”

OPTIONAL REDEMPTION

At any time and from time to time prior to December 16, 2023, the Issuer may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor the Paying Agent will be responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to December 16, 2023, the Issuer may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 113.0% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Issuer will give not less than 15 days' nor more than 30 days' notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any securities exchange and/or being held through the clearing systems, in compliance with the requirements of the principal national securities exchange on which the Notes are listed and/or the requirements of the clearing systems, as applicable; or
- (2) if the Notes are not listed on any securities exchange and/or held through the clearing systems, on a pro rata basis or by lot or by such other method as the Trustee in its sole and absolute discretion deems fair and appropriate, unless otherwise required by law.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

REPURCHASE OF THE NOTES AT THE OPTION OF THE HOLDERS

The Issuer or the Company shall, at the option ("Put Option") of any Holder, repurchase all of the Notes held by such Holder, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof on December 16, 2022 (the "Put Option Settlement Date") at 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the Put Option Settlement Date.

The repurchase of Notes held by a Holder under the Put Option on the Put Option Settlement Date is conditioned upon:

- (a) the delivery to the Paying Agent by such Holder of a duly completed and executed notice in the form set forth in the Indenture (the "Repurchase Notice"), which notice shall be delivered not less than 60 days nor more than 90 days prior to the Put Option Settlement Date and shall be irrevocable; and
- (b) the delivery or book-entry transfer of the Notes to the Paying Agent at any time simultaneous to or after delivery of the Repurchase Notice (together with all necessary endorsements) at the specified office of the Paying Agent at the time, such delivery being a condition to receive by

such Holder of the purchase price therefor; provided that such purchase price shall be so paid under the Put Option only if the Notes so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Repurchase Notice.

The Paying Agent shall as soon as reasonably practicable notify the Issuer or the Company of the receipt by it of any Repurchase Notice.

Holders will receive payment on the later of (i) the Put Option Settlement Date and (ii) the time of book-entry transfer or the delivery of the Notes. If the Paying Agent holds money sufficient to pay the repurchase price of the Notes on the Put Option Settlement Date, then:

- the Notes will cease to be outstanding and interest will cease to accrue (whether or not book-entry transfer of the Notes is made or whether or not the Notes are delivered to the Paying Agent); and
- all other rights of the Holder will terminate (other than the right to receive the repurchase price).

Our ability to satisfy our repurchase obligations may be affected by the factors described in “Risk Factors — Risks Relating to the Notes and the Parent Guarantee — We may not be able to repurchase the Notes at the option of the holders of the Notes.” If we fail to repurchase the Notes when required, we will be in default under the Indenture.

REPURCHASE OF NOTES UPON A CHANGE OF CONTROL TRIGGERING EVENT

Not later than 30 days following a Change of Control Triggering Event, the Issuer or 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.

Each of the Issuer and 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 Issuer and the Company, it is important to note that if the Issuer or the Company, as the case may be, 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 Issuer’s or the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes may also constitute an event of default under certain other debt instruments of the Company and its Subsidiaries. Future debt of the Company and its Subsidiaries may also (1) prohibit the Issuer or 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 Issuer or the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of such purchase on the Issuer or the Company. The Issuer’s or 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 Issuer’s or the Company’s then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes and the Parent Guarantee — 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 Issuer and 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 Issuer or 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 Issuer or the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to a Change of Control Triggering Event has occurred or may occur and shall not be liable to any person for any failure to do so. The Trustee shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer or the Company. The Trustee shall not be required to take any steps to ascertain whether the condition for the exercise of the rights herein has occurred. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for redemption and will not be responsible to the Holders for any loss arising from any failure by it to do so. The Trustee shall not be under any duty to determine, calculate or verify the redemption amount payable hereunder and will not be responsible to the Holders for any loss arising from any failure by it to do so.

NO MANDATORY REDEMPTION OR SINKING FUND

There will be no mandatory redemption or sinking fund payments for the Notes.

ADDITIONAL AMOUNTS

All payments of principal of, and premium (if any) and interest on the Notes or the Parent Guarantee 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 Issuer, the Company or a Surviving Person (as defined under “— Consolidation, Merger and Sale of Assets”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, the PRC (each, as applicable, a “Relevant Jurisdiction”), or any jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer, the Company or a Surviving Person, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction or the jurisdiction through which payments are made, other than merely holding such Note or the receipt of payments thereunder or under the Parent 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 Issuer, the Company or a Surviving Person addressed to the Holder, to provide information concerning such Holder's or its beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction or the jurisdiction through which payments are made, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction or the jurisdiction through which payments are made, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payments of principal, premium (if any) and interest on the Notes or from payments under the Parent Guarantee;
 - (d) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction or the jurisdiction through which payments are made, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under the Parent 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 Issuer, the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable) and the Trustee, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Issuer, 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 Issuer or the Company on or after the Original Issue Date, or (ii) with respect to any Surviving Person, on or after the date such Surviving Person becomes a Surviving Person, with respect to any payment due or to become due under the Notes, the Parent Guarantee or the Indenture, the Issuer, the Company or a Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Issuer, the Company or the Surviving Person, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, the Company or the Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Issuer, the Company or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Issuer, the Company or such Surviving Person, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in the prior paragraph.

The Trustee shall and shall be entitled to accept and conclusively rely upon such Officer's Certificate and Opinion of Counsel as conclusive evidence of the satisfaction of the conditions precedent described above without further verification, in which event it shall be conclusive and binding on the Holders, and will not be responsible for any loss occasioned by acting in reliance on such Officer's Certificate and Opinion of Counsel.

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 Issuer or the Company may Incur Indebtedness (including Acquired Indebtedness), any Finance Subsidiary may Incur Finance Subsidiary Indebtedness and any Restricted Subsidiary (other than a Finance Subsidiary when Incurring Finance Subsidiary Indebtedness) may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.25 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock of Restricted Subsidiaries held by the Issuer or the Company, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
 - (a) Indebtedness under the Notes (excluding any Additional Notes) and the Parent Guarantee;
 - (b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c) below; *provided* that such Indebtedness of Restricted Subsidiaries (other than any Finance Subsidiary) shall be included in the calculation of Permitted Subsidiary Indebtedness (other than such Indebtedness excluded from the definition of Permitted Subsidiary Indebtedness by the terms thereof);
 - (c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) if the Issuer or the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes in the case of the Issuer, or the Parent Guarantee in the case of the Company;
 - (d) Indebtedness of the Company or any Restricted Subsidiary (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clause (a), (b), (f), (m), (n), (r), (s), (t), (u), (v), (w) or (x) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or the Parent Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or the Parent 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 *pari passu* with, or subordinate in right of payment to, the remaining Notes or the Parent Guarantee, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or the Parent 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 the Parent Guarantee, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or the Parent Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, and (iii) in no event may Indebtedness of the Issuer or the Company be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not the Issuer;

- (e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations designed to reduce or manage the exposure of the Company or any Restricted Subsidiary to fluctuations in interest rates, currencies or the price of commodities;
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary (i) representing Capitalized Lease Obligations; or (ii) for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in a Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property (including the lease purchase price of land use rights) or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in a Permitted Business; *provided* that, in the case of this (ii), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such assets, property or equipment or completion of such development, construction or improvement; and *provided further* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (f) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (n)(y), (r), (s), (t), (u), (v) and (w) below (together with any refinancings thereof) does not exceed an amount equal to 35.0% of Total Assets;
- (g) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;

- (i) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;
- (j) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided*, however, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (k) (i) Guarantees by the Issuer or the Company of Indebtedness of any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant;
- (l) Indebtedness of the Company or any Restricted Subsidiary maturing within one year used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (l) at any time outstanding does not exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (m) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (n) (x) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that, on the date of Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (n)(x) (together with refinancings thereof) does not exceed an amount equal to 12.5% of Total Assets; or (y) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that (i) such Bank Deposit Secured Indebtedness is not permitted under clause (n)(x) above, and (ii) on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (n)(y) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (f) above and clauses (r), (s), (t), (u), (v) and (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary becomes obligated to pay the purchase price pursuant to such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (q) Indebtedness Incurred by the Company or a Restricted Subsidiary constituting a Subordinated Shareholder Loan;

- (r) Indebtedness secured by Investment Properties or long term assets; *provided* that, on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (r) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f) and (n)(y) above and clauses (s), (t), (u), (v) and (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
- (s) Indebtedness Incurred or Preferred Stock issued by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary and the Indebtedness of the Company or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a Restricted Subsidiary in favor of a Trust Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Trust Company Investor on Capital Stock of a Restricted Subsidiary held by such Trust Company Investor; *provided* that, on the date of Incurrence of such Indebtedness or issuance of such Preferred Stock and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock Incurred under this clause (s) (together with any refinancings thereof) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y) and (r) above and clauses (t), (u), (v) and (w) below (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) above to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;
- (t) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (B) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that, on the date of the Incurrence of all such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (t) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r) and (s) above and clauses (u), (v) and (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;
- (u) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary becomes obligated to pay such deferred purchase price pursuant to such Minority Interest Staged Acquisition Agreement; *provided* that, on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (u) (together with refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r), (s) and (t) above and clauses (v) and (w) below (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets;

- (v) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than the Company or a Restricted Subsidiary) by the Company or such Restricted Subsidiary; *provided* that, on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (v) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r), (s), (t) and (u) above and clause (w) below (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35.0% of Total Assets;
 - (w) Indebtedness Incurred by the Company or any Restricted Subsidiary under Credit Facilities; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (w) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (f), (n)(y), (r), (s), (t), (u) and (v) above (together with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (f) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35.0% of Total Assets; and
 - (x) any Pari Passu Guarantee.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness or Preferred Stock meets the criteria of more than one of the types of Indebtedness or Preferred Stock described above, including under the proviso in paragraph (1) above, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness or Preferred Stock as one or more of such types.
- (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred or Preferred Stock that may be issued pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness or Preferred Stock due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness or Preferred Stock was permitted to be Incurred or issued at the time of such Incurrence or issuance.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any Restricted Subsidiary’s Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Restricted Subsidiary;

- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or the Parent Guarantee (excluding any intercompany Indebtedness between or among the Company and any Restricted Subsidiary); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (c) such Restricted Payment, together with the aggregate amount of (1) all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date and (2) all 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 (excluding Restricted Payments permitted by the immediately following paragraph other than clause (1) of the immediately following paragraph), shall exceed the sum (without duplication) of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on July 1, 2017 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Restricted Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
 - (iii) the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Restricted Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
 - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) repayments of loans or advances by such Person or other transfers of property, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income)

after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person; plus

(v) US\$50.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of any Finance Subsidiary or the Company with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Issuer or the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Issuer or the Company in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary;
- (6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided* that any such cash payment shall not be for the purpose of evading the limitation of this “Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (7) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing) or the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary for the purposes of any share

award scheme set up for senior management or employees of the Company or any Restricted Subsidiary; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$20.0 million (or the Dollar Equivalent thereof) in any calendar year;

- (8) the purchase by the Company or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Company from an Independent Third Party pursuant to an agreement entered into between/among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, *provided* that (A) such purchase occurs within 12 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire and (B) the Company delivers to the Trustee a Board Resolution set forth in an Officers' Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock;
- (9) the purchase and payments made under a Staged Acquisition Agreement to acquire the Capital Stock of a Person; *provided* that such Person becomes a Restricted Subsidiary on or before the last date in the period stipulated in such Staged Acquisition Agreement for which the purchase price can be made (such date not to exceed 12 months from the date the Company or any Restricted Subsidiary becomes obligated to pay the purchase price pursuant to the Staged Acquisition Agreement);
- (10) the payment of any dividend or distribution payable or paid solely in Capital Stock (other than Disqualified Stock or Preferred Stock) of any Unrestricted Subsidiary or in options, warrants or other rights to acquire shares of such Capital Stock;
- (11) dividends paid to, or the purchase of Capital Stock of the Company or any Restricted Subsidiary held by, any Trust Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Measurement Date or permitted to be Incurred or issued under clause (2)(s) of the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (12) the declaration and payment of dividends on the Common Stock of the Company by the Company with respect to any financial year, to the extent such declaration and payment does not exceed 20% of the consolidated profit for the year of the Company calculated in accordance with GAAP;
- (13) the purchase of the Capital Stock of Chongqing Hesheng Real Estate Development Company Limited in accordance with the relevant equity transfer agreements as disclosed in the announcements of the Company dated March 13, 2018 and March 15, 2018, with respect to the acquisition of certain land use rights in Chongqing; or
- (14) the declaration or payment of any dividends in kind or the making of any distributions in kind by the Company which consist solely of Capital Stock (other than Disqualified Stock or Preferred Stock) of any member of a Restructuring Group in connection with a proposed Restructuring of such Restructuring Group, *provided* that such payment or distribution will be made to the shareholders of the Company at the time of or prior to such Restructuring.

provided that, in the case of clause (2), (3), (4), (10) or (13) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any

assets or securities that are required to be valued by this covenant will be their Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) to (14) above, the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

For purpose of determining compliance with this "— Limitation on Restricted Payments" covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this covenant and paragraph (19) of the definition of "Permitted Investment" at any time, the Company, at its sole discretion, may classify and from time to time may reclassify such item of Investment in either or both of them.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary;

provided that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Parent Guarantee or the Indenture or any Pari Passu Guarantee or any Indebtedness of the Issuer or the Company Guaranteed by any 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) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture, or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale, transfer or other disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants or under “Consolidation, Merger and Sale of Assets”;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or Preferred Stock permitted under the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Issuer or the Company to make required payment on the Notes or the Parent 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;
- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect the ability of (x) the Issuer to make required payments on the Notes or (y) the Company to make the required payments under the Parent 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 or on a basis more favorable to the Company and its Restricted Subsidiaries;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made by the covenant described under "— Limitation on Restricted Payments" if made on the date of such issuance or sale and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not the Issuer, directly or indirectly, to Guarantee (i) any Indebtedness of the Issuer or the Company or (ii) Indebtedness of any Finance Subsidiary initially issued, offered, distributed to, or extended by, a Person outside the PRC (all such Indebtedness referred in (i) and (ii) above collectively, the "Guaranteed Indebtedness"), unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Guarantee of the Notes until the Notes have been paid in full or (2) such Guarantee are permitted by clause (2)(b), (2)(c) or (2)(n) (in the case of (2)(n), with respect to the Guarantee provided by any Restricted Subsidiary through the pledge of cash deposits, bank accounts or other assets to secure (or the use of any Guarantee, letter of credit or similar instrument to Guarantee), directly, or indirectly, any Bank Deposit Secured Indebtedness) under "— Limitation on Indebtedness and Preferred Stock."

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or Parent Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Parent Guarantee, or (2) is subordinated in right of payment to the Notes or the Parent Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Parent Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Parent Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion addressed to the Trustee as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or the relevant Restricted Subsidiary than terms available to (or from, as applicable) a Person that is not an Affiliate of the Company issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation to directors of the Company or any Restricted Subsidiary who are not employees of the Company or such Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1), (2) or (3) of the first paragraph of the covenant described under “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement, so long as each such purchase is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited;
- (6) the payment of compensation to employees, officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is approved by the Board of Directors in good faith or, if such Restricted Subsidiary is listed on a recognized stock exchange, in compliance with the listing rules of such stock exchange;

- (7) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Company or any of its Restricted Subsidiaries with directors, officers, employees and consultants in the ordinary course of business and the payment of compensation pursuant thereto;
- (8) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in a Restructuring Group entered into in connection with a proposed Restructuring, including but not limited to transactions entered into for purposes of any reorganization in connection with such proposed Restructuring and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with such proposed Restructuring; and
- (9) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in a 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 a proposed Restructuring, or any amendment or modification or extension or replacement thereof, so long as such amendment, modification, extension 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 such proposed Restructuring and in compliance with the rules of The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's ordinary shares are then listed for trading.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among the Company, any Wholly Owned Restricted Subsidiary, any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries, a Minority Joint Venture or an Unrestricted Subsidiary; *provided* that in the case of clause (iii), (1) (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary), or (2) such transaction is in connection with the Restructuring, and (iv) any Affiliate Transaction that is conducted in accordance with the relevant rules and regulations of The Stock Exchange of Hong Kong Limited, for as long as the Capital Stock of the Company remains listed on The Stock Exchange of Hong Kong Limited.

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

In the event that one or more Liens (and documents relating thereto) are to be established or maintained to effect equal and ratable security arrangements in respect of the Notes (as contemplated under the preceding paragraph) with regards to Indebtedness proposed to be or previously Incurred by the Issuer or the Company in compliance with the terms of the Indenture, the Issuer or the Company may instruct the Trustee to directly, or through its Affiliates (in its capacity as Trustee or that of a collateral

agent on such terms as it shall require) and without the consent of any Holders, (a) enter into one or more intercreditor agreements, pledge agreements, collateral and security agreements or other arrangements intended to effect the shared security arrangements contemplated by this paragraph among holders of such Indebtedness and (b) complete or facilitate the completion by itself or other parties of filings, registrations or other actions necessary to effect or perfect the relevant Liens or related arrangements. The Trustee shall not incur any liability to any person for entering, or failing to enter, into one or more of such intercreditor agreements, pledge agreements, collateral and security agreements or other arrangements contemplated herein.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described under “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of such Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in such Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as applicable, applies the proceeds of such transaction in compliance with, the covenant described under “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or the Parent Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, set-off, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Issuer or the Company or any Indebtedness of a Restricted Subsidiary that is not the Issuer (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly permanently reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets;

provided that, pending the application of Net Cash Proceeds as set forth in clause (1) or (2) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute “Excess Proceeds.” Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Issuer or the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US\$1,000.

Pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above, the Company or any Restricted Subsidiary may make an Investment in cash or Temporary Cash Investments.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to (but not including) the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes will be selected (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis based on the principal amount of Notes and such other *pari passu* Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company’s Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption “— Limitation on Restricted Payments.”

Limitation on the Issuer's Activities

Notwithstanding anything contained in the Indenture to the contrary, the Issuer will not engage in any business activity or undertake any other activity, except any activity (a) relating to the offering, sale or issuance of the Notes, the incurrence of Indebtedness represented by the Notes or any Additional Notes issued under the Indenture (if such offering, sale or issuance is permitted under the Indenture), (b) relating to the offering, sale, issuance or incurrence of other debt obligations and the incurrence of Indebtedness represented by such debt obligations, (c) contributing to, lending to or otherwise using the proceeds of the issuance of Indebtedness referred to in clause (a) or (b) Incurred by the Issuer to fund the activities of the Company or any Restricted Subsidiary or the making of any Temporary Cash Investments with such proceeds, (d) undertaken with the purpose of fulfilling any obligations under the Indebtedness referred to in clause (a) or (b) or the Indenture or any future indenture or similar document related to such Indebtedness or for purposes of any consent solicitation or tender for such Indebtedness or refinancing of such Indebtedness, (e) directly related to the establishment and/or maintenance of the Issuer's corporate existence or (f) any other activities in connection therewith.

The Issuer will not (a) issue any Capital Stock other than the issuance of its ordinary shares or Preferred Stock to the Company or (b) acquire or receive any property or assets (including, without limitation, any Capital Stock or Indebtedness of any Person), other than (i) any intercompany Indebtedness owed by the Company or any Restricted Subsidiary to the Issuer in respect of the borrowing of the proceeds of the issuance of Indebtedness by the Issuer or payments in respect thereof, (ii) cash for ongoing corporate activities of the Issuer described in the preceding paragraph, (iii) the activities related to the establishment or maintenance of the Issuer's corporate existence or (iv) any Notes acquired in connection with a redemption or repurchase permitted by the Indenture.

The Issuer will at all times remain, directly or indirectly, a Wholly Owned Restricted Subsidiary of the Company.

For so long as any Notes are outstanding, the Issuer will not, and the Company will procure that none of the Restricted Subsidiaries will, commence or take any action to cause a winding-up or liquidation of the Issuer, except that the Issuer may be wound up or liquidated subsequent to a consolidation, merger or transfer of assets conducted in accordance with the first paragraph of the covenant described under "— Consolidation, Merger and Sale of Assets."

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in market condition or business plans as contemplated, under "Use of Proceeds" in the offering memorandum relating to the Original Notes or this offering memorandum, as applicable (or in the case of Additional Notes (other than the New 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 (other than the Issuer) 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, if such credit support, at the time of or after giving effect to such designation, would not be permitted to be made under the covenant described under "— Limitation on Indebtedness and Preferred Stock" and the covenant described under "— Limitation on Restricted Payments"; (3) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under "— Limitation on Indebtedness and Preferred Stock" or such Lien would violate the covenant described under "— Limitation on Liens"; (4) such Restricted Subsidiary does not own any Voting Stock of another

Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (5) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments” (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 pursuant to clause (21) of the definition of “Permitted Investment”).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under “— Limitation on Liens”; and (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary).

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Issuer or the Company to perform its obligations under the Notes, the Parent Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit the Issuer to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Issuer or the Company, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the Parent Guarantee on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from the Rating Agency and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from the Rating Agency, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Limitation on Indebtedness and Preferred Stock”;
- (2) “— Limitation on Restricted Payments”;
- (3) “— Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “— Limitation on Issuances of Guarantees by Restricted Subsidiaries”;

- (6) “— Limitation on Sale and Leaseback Transactions”;
- (7) “— Limitation on Asset Sales”;
- (8) “— Limitation on the Company’s Business Activities”;
- (9) clauses (3), (4) and (5)(x) of “— Consolidation, Merger and Sale of Assets.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any Restricted Subsidiary as an Unrestricted Subsidiary pursuant to the covenant described under “— Designation of Restricted and Unrestricted Subsidiary” or the definition of Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Issuer, the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant described under “— Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s Common Stock is at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent quarterly periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on Noteholders; *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto, and the Trustee shall and shall be entitled to conclusively rely on and accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on Noteholders.

EVENTS OF DEFAULT

The following events are 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 Issuer or the Company to make or consummate an Offer to Purchase in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Certain Covenants — Limitation on Asset Sales" or the failure by the Issuer or the Company to repurchase the Notes under "— Repurchase of the Notes at the Option of the Holders";
- (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 then outstanding or by the Trustee at the direction of such Holders;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof)), in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

- (7) an involuntary case or other proceeding is commenced against the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or for any substantial part of the property and assets of the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or for all or substantially all of the property and assets of the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) in the ordinary course of business that shall result in the net assets of such Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Company); or
- (9) the Company denies or disaffirms its obligations under the Parent Guarantee or, except as permitted by the Indenture or the Parent Guarantee, the Parent Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

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 Issuer and the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders (subject to being indemnified and/or secured to its satisfaction by the Holders) shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Issuer, the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary), the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes by written notice to the Issuer and the Company and to the Trustee may, on behalf of the Holders of the Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee shall, upon written request of Holders of at least 25% in aggregate principal amount of outstanding Notes, pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or 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.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct in writing the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, subject to the Trustee being indemnified and/or secured to its satisfaction in advance of the proceedings. However, the Trustee may refuse to follow any direction that conflicts with law or regulations or the Indenture, or that may involve the Trustee in personal liability and may take any other action it deems proper that is not inconsistent with any written direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written direction to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with written such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security satisfactory to it; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or any payment under the Parent Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company and its Restricted Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Certain Covenants — Provision of Financial Statements and Reports."

The Trustee and the Agents are not obliged to take any actions to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and, each of the Trustee and the Agents may assume that no Event of Default or Default has occurred and that the Issuer or the Company is performing all its obligations under the Indenture and the Notes unless the Trustee or any Agent, as the case may be, has received written notice of the occurrence of such event or facts establishing that the Issuer or the Company is not performing all of its obligations under the Indenture and the Notes and specifying each default and the nature and status thereof. The Trustee and the Agents are entitled to conclusively rely, without liability, on any Opinion of Counsel or Officers' Certificate regarding whether an Event of Default or Default has occurred.

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Issuer will not consolidate with, merge with or into, another Person (other than the Company), permit any Person (other than the Company) to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets (as an entirety or substantially an entirety in one transaction or a series of related transactions) to any Person (other than the Company); provided that, in the event the Issuer so consolidates with, merges with or into, the Company or sells, conveys, transfers, leases or otherwise disposes of all or substantially all of its properties and assets to the Company, the Company immediately after such transaction will (a) assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Issuer under the Indenture and the Notes, which shall remain in full force and effect and (b) deliver to the Trustee an Officers' Certificate and an Opinion of Counsel, in each case stating that such transaction and such supplemental indenture comply with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with.

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person, unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by or surviving such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Bermuda, the British Virgin Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, 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 and the Notes, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under paragraph (1) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture comply with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred.

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Issuer or 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, the Notes or the Parent Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or the Parent Guarantee in connection with an exchange or tender offer, the Company and any Restricted Subsidiary may exclude (i) Holders or beneficial owners of the Notes that are not institutional “accredited investors” as defined in Rule 501 under the Securities Act, and (ii) Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

DEFEASANCE

Defeasance and Discharge

The Indenture provides that the Issuer will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Issuer (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) has delivered to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Issuer is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Issuer has delivered to the Trustee (a) either (x) an Opinion of Counsel of recognized international standing with respect to U.S. federal tax laws which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Issuer's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel, and (b) an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

In case of either discharge or defeasance of the Notes, the Parent Guarantee will terminate.

Defeasance of Certain Covenants

The Indenture further provides that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (6) under the second paragraph under "— Consolidation, Merger and Sale of Assets" and all the covenants described herein under "— Certain Covenants," other than as described under "— Certain Covenants-Government Approvals and Licenses; Compliance with Law" and "— Certain Covenants — Anti-Layering," clause (3) under "Events of Default" with respect to clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets" and with respect to the other events set forth in such clause, clause (4) under

“Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph and the delivery by the Issuer to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event that the Issuer exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee (or its agent) will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Issuer and the Company will remain liable for such payments.

AMENDMENTS AND WAIVER

Amendments Without Consent of Holders

The Indenture, the Notes and the Parent Guarantee may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes or the Parent Guarantee; *provided* that such actions pursuant to this clause (1) do not materially and adversely affect the interests of the Holders;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Guarantee with respect to the Notes;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) provide collateral, add additional collateral to secure the Notes, the Parent Guarantee, any Guarantee of the Notes or enter into any intercreditor agreement in accordance with the Indenture;
- (7) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (9) make any other change that does not materially and adversely affect the rights of any Holder;
or
- (10) conform the text of the Indenture, the Notes or the Parent Guarantee to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes or the Parent Guarantee.

Amendments With Consent of Holders

Amendments of the Indenture, the Notes or the Parent Guarantee may be made by the Issuer, the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in aggregate principal amount of the outstanding Notes may waive future compliance by the Issuer and the Company with any provision of the Indenture, the Notes or the Parent Guarantee; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or premium, if any, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or the Parent Guarantee;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (8) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale, unless such amendment, waiver or modification shall be in effect prior to the occurrence of a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “— Certain Covenants — Limitation on Asset Sales”;
- (9) change the redemption date or the redemption price of the Notes from that stated under “— Optional Redemption” or “— Redemption for Taxation Reasons” or change the time, manner or put price of the Notes by which a Put Option may be made from that stated under the caption “— Repurchase of Notes at the Option of Holders of the Notes”;

- (10) amend, change or modify the obligation of the Issuer or the Company to pay Additional Amounts;
- (11) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or the Parent Guarantee in a manner which adversely affects the Holders;
- (12) release the Company from the Parent Guarantee, except as provided in the Indenture; or
- (13) amend, change or modify the Parent Guarantee in a manner that adversely affect the Holders.

UNCLAIMED MONEY

Claims against the Issuer or 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 Issuer or the Company in the Indenture, the Notes or the Parent Guarantee 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 Issuer, the Company, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Parent Guarantee. Such waiver may not be effective to waive liabilities under the federal securities laws.

CONCERNING THE TRUSTEE AND THE AGENTS

Citicorp International Limited has been appointed as Trustee under the Indenture. Citibank, N.A., London Branch, a banking corporation organized and existing under the laws of the State of New York with limited liability, has been appointed as registrar (the "Registrar") and as paying agent (the "Paying Agent") and transfer agent (the "Transfer Agent" and, together with the Registrar and the Paying Agent, the "Agents") with regard to the Notes. Except during the continuance of an Event of Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture and the Notes. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless the requisite number of Holders shall have instructed the Trustee in writing and offered to the Trustee security and/or indemnity satisfactory to it against loss, liability or expense.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Issuer or the Company, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Issuer, the Company and their respective Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Each Holder of the Notes, by accepting the Notes agrees, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the offering of the Notes, and has not relied on, and will not at any time rely on, the Trustee in respect of such risks.

BOOK-ENTRY; DELIVERY AND FORM

The New Notes will be represented by one or more global notes in registered form without interest coupons attached (the “Global Note”). On the issue date of the New Notes, the Global Note representing the New Notes 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 Issuer, the Company, the Trustee, the Agents or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

PAYMENTS ON THE GLOBAL NOTE

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The Paying Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Issuer and 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 Issuer, the Company, the Trustee and the Agents will treat the registered holder of the Global Note (i.e., the common depository or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Company, the Trustee, the Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- any action or failure to take any action by Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

REDEMPTION OF GLOBAL NOTE

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer and the Company understand that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

ACTION BY OWNERS OF BOOK-ENTRY INTERESTS

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note.

TRANSFERS

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

The Issuer and the Company understand 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 Issuer, the Company, the Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

INDIVIDUAL DEFINITIVE NOTES

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Issuer has received a written request from a Holder, the Issuer will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or a Holder, as the case may be, the Issuer will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Trustee in sufficient quantities and authenticated by or on behalf of the Trustee or the Registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Issuer and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

NOTICES

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail (if intended for the Issuer or the Company) addressed to the Company at the principal office of the Company or such other address as the Company may advise the Trustee in writing from time to time, (if intended for the Trustee) at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

CONSENT TO JURISDICTION; SERVICE OF PROCESS

Each of the Issuer and the Company has irrevocably (1) submitted to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Parent Guarantee, the Indenture or any transaction contemplated thereby; and (2) designated and appointed Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

GOVERNING LAW

Each of the Notes, the Parent Guarantee and the Indenture is or will be, as applicable, governed by, and construed in accordance with, the laws of the State of New York.

DEFINITIONS

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"2022 Notes" means the 13% Senior Notes due 2022 issued by the Company on July 8, 2019.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, (i) the yield, under the heading which represents the average for immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after December 16, 2023, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step child, parent or step parent, brother, sister, step brother or step sister, parent in law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of such Notes on December 16, 2023, plus all required remaining scheduled interest payments due on such Note through December 16, 2023 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales, transfers or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales or other dispositions of cash and Temporary Cash Investments;
- (3) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “Limitation on Restricted Payments” covenant;
- (4) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (5) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;

- (6) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien not prohibited by the “Limitation on Liens” covenant;
- (7) a transaction covered by the “Consolidation, Merger and Sale of Assets” covenant; and
- (8) any sale, transfer or other disposition by the Company or any Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by cash deposits, bank accounts or other assets of the Company or a Restricted Subsidiary and/or (ii) guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange foreign currencies or remit money onshore or offshore.

“Board of Directors” means the board of directors of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London, the PRC or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible or exchangeable into such equity.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person, *provided* that Capitalized Lease shall not include any lease which would have been classified as an “operating lease” before the adoption of GAAP 16.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;
- (2) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (3) the Permitted Holders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least a majority of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (6) the adoption of a plan relating to the liquidation or dissolution of the Issuer or 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.

“Commodity Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to manage or reduce exposure to fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to December 16, 2023 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 December 16, 2023.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is received by the Company) Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP and gains on disposals of Capital Stock of any Restricted Subsidiary which holds Investment Properties),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any Restricted Subsidiary and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), only to the extent such interest has become due and payable under such Guarantee or security by the Company or any Restricted Subsidiary and (7) any capitalized interest, *provided* that Consolidated Interest Expense shall not include (x) interest expense attributable to leases which would have been classified as “operating leases” before the adoption of GAAP 16 and (y) interest expense accruing on pre-sale receipts in advance from customers; and *provided further* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or any Restricted Subsidiary;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of this Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available quarterly, semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Credit Facilities” means one or more of the facilities or arrangements with one or more banks or other lenders or institutions providing for revolving credit loans, term loans, receivables or financings (including without limitation through the sale of receivables or assets to such institutions or to special purpose entities formed to borrow from such institutions against such receivables or assets or the creation of any Liens in respect of such receivables or assets in favor of such institutions), letters of credit or other Indebtedness, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with any of the foregoing, including but not limited to any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledge agreements, security agreements and collateral documents, in each case as the same may be amended, supplemented, waived or otherwise modified from time to time, or refunded refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time (whether in whole or in part, whether with the original banks, lenders or institutions or other banks, lenders or institutions or otherwise, and whether provided under any original Credit Facility or one or more other credit agreements, indentures, financing agreements or other Credit Facilities or otherwise). Without limiting the generality of the foregoing, the term “Credit Facility” shall include any agreement (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder (*provided* that such increase is permitted under the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) or (4) otherwise altering the terms and conditions thereof.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for (or options, warrants or other rights exercisable for) Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “Limitation on Asset Sales” and “Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will

not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's or the Company's repurchase of such Notes as are required to be repurchased pursuant to the "Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control Triggering Event" covenants.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"Entrusted Loans" means borrowings by a Restricted Subsidiary from the Company or another Restricted Subsidiary (whether directly or through or facilitated by a bank or other financial institution), *provided* that such borrowings are not reflected as borrowings on the consolidated balance sheet of the Company.

"Equity Offering" means (i) any *bona fide* underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any *bona fide* underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placement price, in each case under clause (i) or (ii) *provided* such public offering or private placement is to a person other than a Restricted Subsidiary or Permitted Holder; *provided* that any offering or placement referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

"Euroclear" means Euroclear Bank SA/NV.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"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.

"Finance Subsidiary" means a Subsidiary of the Company or another Finance Subsidiary (including the Issuer) (i) that is a Restricted Subsidiary and whose operations are comprised of Incurring Indebtedness to Persons other than the Company, any Restricted Subsidiary or their respective Affiliates from time to time to finance the operations of the Company and/or its Subsidiaries and (ii) which conducts no business and owns no material assets than any equity interest in another Finance Subsidiary or intercompany Indebtedness Incurred in connection with the Indebtedness described in clause (i).

"Finance Subsidiary Indebtedness" means Indebtedness of a Finance Subsidiary that is Guaranteed by the Company; *provided* that no Restricted Subsidiary shall provide any Guarantee in respect of or be an obligor under such Indebtedness unless such Restricted Subsidiary also provides for an unsubordinated Guarantee of payment of the Notes.

"Fitch" means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged or consolidated with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this paragraph requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong, as in effect from time to time.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase or redemption price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person, shall be deemed to be “Indebtedness.”

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligations, Entrusted Loans, pre-sale receipts in advance from customers or similar obligations, Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that

- (1) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph 2(e) under the “Limitation on Indebtedness and Preferred Stock” covenant or (ii) equal to the net amount payable by such Person if such Hedging Obligation was terminated at or prior to that time if not Incurred pursuant to such clause.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent Guaranteed by such Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportionate interest in the Fair Market Value of the assets (net of the Company’s proportional interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, (2) if the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Capital Stock of such Person not sold or disposed of, and (3) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest Rating Categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for Fitch.

“Investment Property” means any property that is owned and held by the Company or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both or for self use, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Measurement Date” means August 30, 2018.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company and/or any Restricted Subsidiary on the one hand and an Independent Third Party on the other (x) pursuant to which the Company and/or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a person for a consideration that is not more than the Fair Market Value of such Capital Stock at the time the Company and/or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one instalment over a period of time.

“Minority Joint Venture” means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary and primarily engaged in the Permitted Businesses, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;

- (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock or securities convertible or exchangeable into Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase the Notes by the Issuer or the Company, as the case may be, from the Holders commenced by mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the 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 Issuer or the Company, as the case may be, defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the tender agent (the “Tender Agent”) at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Tender Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Issuer or the Company, as the case may be, shall deposit with the Tender Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted. On the Offer to Purchase Payment Date, the Issuer or the Company, as the case may be, shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Issuer or the Company, as the case may be. The Tender Agent shall as soon as practicable mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall as soon as practicable authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Issuer or the Company, as the case may be, will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Issuer or the Company, as the case may be, will comply with all applicable securities laws and regulations, in the event that the Issuer or the Company, as the case may be, is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Issuer or the Company, as the case may be, will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Issuer or the Company, as the case may be, will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Issuer or the Company, as the case may be, and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Issuer or the Company, as the case may be, 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 Issuer or the Company, as the case may be, to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the directors or executive officers of the Company or in the case of the Issuer, one of the directors or officers of the Issuer.

“Officers' Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers' Certificate required to be delivered by the Issuer under the Indenture, Officers' Certificate means a certificate signed by one Officer if there is only one Officer in the Issuer at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel who is acceptable to the Trustee.

“Original Issue Date” means December 16, 2020, the date on which the Original Notes were issued under the Indenture.

“Parent Guarantee” means any Guarantee of the obligations of the Issuer under the Indenture and the Notes by the Company.

“Pari Passu Guarantee” means a guarantee by the Issuer, another Finance Subsidiary or the Company of Indebtedness of the Issuer (including Additional Notes), another Finance Subsidiary or the Company, as the case may be; *provided* that (1) the Issuer, such Finance Subsidiary or the Company was permitted to Incur such Indebtedness under the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with the Notes or the Parent Guarantee, as the case may be.

“Permitted Business” means any business which is the same or related, ancillary or complementary to any of the business of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. YU Pan;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1);
- (3) the estate, trust and any immediate family member of the Persons listed in (1) or the legal representative of any of the foregoing; and
- (4) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;
- (7) receivables owing to the Company or any Restricted Subsidiary (x) if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms or (y) if created or acquired in the ordinary course of business in connection with any sale or disposal of any asset of the Company or any Restricted Subsidiary, which receivable shall be paid within 24 months after the creation or acquisition thereof;
- (8) Investments consisting of consideration received in connection with an Asset Sale made in compliance with the covenant described under “— Certain Covenants — Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Certain Covenants — Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;

- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (14) deposits made in order to secure the performance of the Company or any Restricted Subsidiary and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case in the ordinary course of business;
- (15) advances or prepayments to government authorities or government-affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Company's consolidated balance sheet;
- (16) Guarantees permitted by the covenant described under the caption entitled "— Limitation on Indebtedness and Preferred Stock";
- (17) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (18) repurchases of the Notes;
- (19) any Investment (including any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary), *provided* that:
 - (i) the aggregate of all Investments made under this clause (19) since the Original Issue Date, shall not exceed in aggregate an amount equal to 15.0% of Total Assets. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (19) since the Original Issue Date resulting from:
 - (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
 - (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date under this clause of an obligation of any such Person, or
 - (C) to the extent that an Investment made after the Original Issue Date under this clause is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause;

- (ii) no Default has occurred and is continuing or would occur as a result of such Investment;
- (iii) the Company or such Restricted Subsidiary owns, directly or indirectly, no less than 5.0% of the voting power of the outstanding Voting Stock of the Person into which such Investment is made (after giving effect to such Investment); and
- (iv) the Person into which such Investment is made is primarily engaged in the Permitted Business; *provided* however that this paragraph (iv) shall not apply if such Investment would otherwise have been permitted under this clause (19) and such Investment, together with the aggregate amount of all other Investments made in reliance on this proviso since the Original Issue Date, shall not exceed in aggregate an amount equal to 5.0% of Total Assets (such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made in reliance on this proviso since the Original Issue Date resulting from the events set forth in paragraphs (i)(A) through (i)(C) above, where references in such paragraphs to “under this clause (19)” shall be substituted with “in reliance on the proviso in paragraph (iv)”);

For the avoidance of doubt, the value of each Investment made pursuant to this clause (19) shall be valued at the time such Investment is made;

- (20) Investments in asset management or similar investment products having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), taken together with all other Investments made pursuant to this clause (20) that are at the time outstanding, not to exceed an amount equal to 10.0% of Total Assets; and
- (21) 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 Qualifying 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 (21) since the Original Issue Date shall not exceed an amount equal to 10.0% of Total Assets (for the avoidance of doubt, any portion of such Investments exceeding 10.0% 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 this Indenture).

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance, and return-of-money bonds, utility services, developer's or other obligations to make site or off-site improvements and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and Incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (2)(e) of the covenant described under "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under "— Certain Covenants — Limitation on Indebtedness and Preferred Stock"; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (15) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(f) of the covenant under "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of

such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item, *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property and improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recently available consolidated financial statements of the Company (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (15) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (16) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (17) Liens securing Indebtedness permitted to be Incurred under clause (2)(l) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (18) Liens securing Indebtedness permitted to be Incurred under clause (2)(m) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (19) Liens made to secure Bank Deposit Secured Indebtedness permitted to be Incurred under clause 2(n) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock;”
- (20) Liens Incurred on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(o) or (2)(u) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (21) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee permitted to be Incurred under clause (2)(p) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (22) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary permitted to be Incurred under clause (2)(r) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (23) Liens on deposits made in order to secure the performance of the Company or any Restricted Subsidiary in connection with the acquisition of real property or land use rights (including acquisition of Capital Stock of a Restricted Subsidiary which holds the real property or land use rights) by the Company or any Restricted Subsidiary in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (24) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (25) Liens Incurred on deposits made to secure Entrusted Loans;
- (26) Liens granted by the Company or a Restricted Subsidiary in favor of a Trust Company Investor in respect of, and to secure, the Indebtedness permitted under clause (2)(s) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;

- (27) Liens securing Indebtedness which is permitted to be Incurred under clause (2)(t), (2)(v) or (2)(w) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (28) Liens securing any “Permitted Pari Passu Secured Indebtedness” as defined in and permitted by the indenture (including any amendments or supplements thereto) governing the 2022 Notes; and
- (29) Liens on the Capital Stock of a Finance Subsidiary (other than the Issuer) and any intercompany loans or advances from such Finance Subsidiary to the Company, in each case, securing Finance Subsidiary Indebtedness of such Finance Subsidiary (and Guarantees by the Company or Restricted Subsidiaries of such Finance Subsidiary Indebtedness) permitted to be Incurred under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock.”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (excluding any Finance Subsidiary Indebtedness and any Indebtedness of the Issuer); *provided* that, on the date of the Incurrence of such Indebtedness and after giving *pro forma* effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness or issuance of such Preferred Stock, as the case may be (excluding, without duplication, any Public Indebtedness and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (c), (e) and (p) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 20.0% of Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, which shall for the purpose of this “Description of the Notes” only, exclude Hong Kong Special Administrative Region of the People’s Republic of China, Macau Special Administrative Region of the People’s Republic of China and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on November 4, 2017) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995 (as most recently amended on November 17, 2017), as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Qualifying Exchange” means either (1) The New York Stock Exchange, the Nasdaq Stock market, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, Singapore Exchange Securities Trading Limited, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (2) a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act).

“Qualified IPO” means an initial public offering, and a listing of, common shares of a company on a Qualifying Exchange, *provided* that such listing is on a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act), such listing shall result in a public float of no less than the percentage required by the applicable listing rules.

“Rating Agency” means Fitch, provided that if Fitch shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency selected by the Company, which shall be substituted for Fitch.

“Rating Category” means (1) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (2) the equivalent of any such category of Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” or “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to Fitch, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under “— Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after the date of public notice of the occurrence of a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the Rating Agency) of any of the events listed below, or (2) in connection with actions contemplated under “— Consolidation, Merger and Sale of Assets,” the notification by the Rating Agency that such proposed actions will result in any of the events listed below:

- (A) in the event the Notes are rated by the Rating Agency on the Rating Date as Investment Grade, the rating of the Notes by the Rating Agency shall be below Investment Grade; or
- (B) in the event the Notes are rated by the Rating Agency and are rated below Investment Grade on the Rating Date by the Rating Agency, the rating of the Notes by the Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. New York City time on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, (1) properties or assets that replace the properties and assets that were the subject of such Asset Sale that are used in a Permitted Business or (2) property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon acquisition by the Company or any Restricted Subsidiary of such Capital Stock, become a Restricted Subsidiary.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“Restructuring” means the restructuring and a Qualified IPO of a member or members in the Restructuring Group.

“Restructuring Group” means the group of entities engaged in the business(es) that the Company may spin off and separately list on a Qualifying Exchange as part of the Restructuring.

“S&P” means Standard & Poor’s Ratings Services and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“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 Issuer, the Notes and (b) in respect of the Company, the Parent 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 that would be a “significant subsidiary” within the meaning of the definition of “significant subsidiary” in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Original Issue Date; *provided* that in each instance in such definition in which the term “10 percent” is used, the term “5 percent” shall be substituted therefor.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal, and premium, if any, of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of, and premium, if any, or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Issuer or the Company which is contractually subordinated or junior in right of payment to the Notes or the Parent 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, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity of which (i) more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such corporation, association or other business entity equal to the Fair Market Value of the Capital Stock of such corporation, association or other business entity held by such Person immediately after the occurrence of such event, which shall be made in compliance with the “— Limitation on Restricted Payments” covenant.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the United Kingdom, the PRC and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the United Kingdom, the PRC and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P, Moody’s or Fitch;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area, the United Kingdom or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P or Fitch;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P, Moody’s or Fitch;

- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above;
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with, any bank, trust company or other financial institution organized under the laws of the PRC or anywhere the Company or any Restricted Subsidiary conducts business operations; and
- (8) structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC or anywhere the Company or any Restricted Subsidiary conducts business operations if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months' notice.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(f) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means an Independent Third Party that is a financial institution, including but not limited to a bank, a trust company, a securities management company, an asset management company, a fund management company, a financial management company, or an insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director ‘s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Bermuda, British Virgin Islands and PRC tax consequences of the purchase, ownership and disposition of the New 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 New Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.

BERMUDA

Bermuda Taxation

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or by our shareholders in respect of the New Notes. We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

Stamp Duty

The Company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda.

BRITISH VIRGIN ISLANDS TAXATION

As a company incorporated under the BVI BC Act, the Issuer is exempt from all provisions of the Income Tax Act of the British Virgin Islands (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the Issuer to persons who are not persons resident in the British Virgin Islands).

Capital gains realised with respect to any shares, debt obligations or other securities of the Issuer by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Issuer.

PRC

Income Tax

Under the EIT Law and the Implementation Rules, both of which took effect on January 1, 2008 and amended on February 24, 2017 and December 29, 2018, respectively, enterprises established outside the PRC whose “de facto management bodies” are located in China are considered as “PRC resident enterprises.” The Implementation Rules define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, production, personnel, accounts and properties of an enterprise.

The Company holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, most of the Company's directors and senior management are currently based inside China and the Company keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether the Company is a PRC resident enterprise for PRC tax purposes.

Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in China for PRC tax purposes, the Company intends to take the position that it is not a PRC resident enterprise for PRC tax purposes. The Company cannot assure you that tax authorities will respect its position. As of the date of this offering memorandum, we have not been notified or informed by the PRC tax authorities that we are considered as a PRC resident enterprise for the purpose of the EIT Law and its implementation regulations. If the Company is deemed to be a PRC resident enterprise for enterprise income tax purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income excluding equity investment income such as dividend and bonus between the Company and its PRC subsidiaries if they are each deemed a qualified PRC resident enterprise. Furthermore, the Company would be obligated to withhold PRC income tax from payments of interest on the New Notes to investors that are non-resident enterprises or non-resident individuals, generally at the rate of 10% or 20% respectively (unless a lower rate is applicable), because the interest would be regarded as income derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors from the transfer of the New Notes may be regarded as income derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10% (unless a lower rate is applicable).

Value Added Tax

On March 23, 2016, the MOF and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) (the "Circular 36") which confirms that business tax was replaced by value-added tax from May 1, 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, value added tax.

According to Circular 36 Notice, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to value-added tax include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the New Notes providing loans to the Company, which thus shall be regarded as financial services subject to the value-added tax.

It is not clear from the interpretation of Circular 36 if the provision of loans to the Company could be considered services provided within the PRC, which could be regarded as the provision of financial services that could be subject to VAT. Furthermore, there is no assurance that the Company will not be treated as "resident enterprises" under the EIT Law. PRC tax authorities could take the view that the holders of the New Notes are providing loans within the PRC because the Company is treated as a PRC tax resident. In such case, the issuance of the New Notes could be regarded as the provision of financial services within the PRC that is subject to VAT.

If the Company is treated as a PRC tax resident and if PRC tax authorities take the view that the holders of the New Notes are providing loans within the PRC, the holders of the New Notes shall be subject to the value-added tax at the rate of 6% when receiving the interest payments under the New Notes. In addition, the holders of the New Notes shall be subject to the local levies at approximately 12% of the value-added tax payment and consequently, the combined rate of value-added tax and local levies would be around 6.72%. Given that the Company pays interest income to the holders of the New Notes who are located outside of the PRC, the Company, acting as the obligatory withholder in accordance with applicable law, shall withhold the value-added tax and local levies from the payment of interest income to holders of the New Notes who are located outside of the PRC.

Where a holder of the New Notes who is an entity or individual located outside of the PRC resells the New Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Company does not have the obligation to withhold the value-added tax or the local levies. However, there is uncertainty as to the applicability of value-added tax if either the seller or buyer of Notes is located inside the PRC.

Given Circular 36 has been issued quite recently, the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. Accordingly, there is uncertainty as to the application of Circular 36.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the New Notes is maintained outside the PRC and the issuance and the sale of the New Notes is made outside of the PRC).

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum between Issuer, the Company, CCB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, YONXI Securities Limited, Valuable Capital Limited, CMB International Capital Limited, Seazen Resources Securities Limited, Glory Sun Securities Limited, Continental Securities Limited and Guolian Securities International Capital Co., Limited as the Initial Purchasers, we have agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally and not jointly agreed to purchase the principal amount of the New Notes set forth opposite their respective names below.

| Initial Purchasers | Principal Amount of the New Notes |
|---|--------------------------------------|
| CCB International Capital Limited | US\$ 21,000,000 |
| Guotai Junan Securities (Hong Kong) Limited | US\$ 21,000,000 |
| YONXI Securities Limited | US\$ 10,000,000 |
| Valuable Capital Limited | US\$ 10,000,000 |
| CMB International Capital Limited | US\$ 10,000,000 |
| Seazen Resources Securities Limited | US\$ 10,000,000 |
| Glory Sun Securities Limited | US\$ 10,000,000 |
| Continental Securities Limited | US\$ 10,000,000 |
| Guolian Securities International Capital Co., Limited | US\$ 10,000,000 |
| Total | US\$112,000,000 |

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

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

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

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

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

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

The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. However, we cannot assure you that we will ultimately obtain such listing or that we will be able to maintain such listing or that the prices at which the New Notes will sell in the market after this offering will not be lower than the initial offering price. Accordingly, we cannot assure you that a liquid trading market will develop for the New Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable. The Initial Purchasers have advised us that it currently intends to make a market in the New Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the New Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the New Notes.

We expect to deliver the New Notes against payment for the New Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the third business day following the date of the pricing of the New Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days, purchasers who wish to trade the New Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the New Notes initially will settle in T+3, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the New Notes who wish to trade the New Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

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

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

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

SELLING RESTRICTIONS

General

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

United States

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

European Economic Area

This offering memorandum has been prepared on the basis that any offer of the New Notes in any Member State of the European Economic Area will be made pursuant to an exemption under Regulation (EU) 2017/1129 (the “Prospectus Regulation”) from the obligation to publish a prospectus for offers of the New Notes. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes in circumstances in which an obligation arises for the Issuer or the Initial Purchasers to publish a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the New Notes contemplated in this offering memorandum.

The Initial Purchasers have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any New Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or
- (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

This offering memorandum has been prepared on the basis that any offer of the New Notes in the United Kingdom (“UK”) will be made pursuant to an exemption under the FSMA from the requirement to publish a prospectus for offers of the New Notes. The expression FSMA means the Financial Services and Markets Act 2000 (as amended). Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes in circumstances in which an obligation arises for the Issuer or the Initial Purchasers to publish a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the New Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the New Notes contemplated in this offering memorandum.

The Initial Purchasers have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any New Notes to any retail investor in the United Kingdom. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

This offering memorandum is for distribution only to persons who (i) fall within Article 43(2)(b) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order, (iii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Financial Promotion Order, (iv) are outside the United Kingdom, or (v) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as

amended, the “FSMA”)) in connection with the issue or sale of any New Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Each of the Initial Purchasers has represented, warranted and agreed that:

- it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the “FSMA) received by it in connection with the issue or sale of any New Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

Hong Kong

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

Japan

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

Singapore

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

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

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

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

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

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

PRC

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

Italy

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

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

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

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

Bermuda

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

British Virgin Islands

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

TRANSFER RESTRICTIONS

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

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

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

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

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

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

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

RATINGS

The Original Notes are rated B- by Fitch and we do not expect the ratings will change as a result of the issuance of the New Notes. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a corporate family rating of B-(Negative) by Fitch. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

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

INDEPENDENT ACCOUNTANTS

Our audited consolidated financial statements as of and for the year ended December 31, 2019 and 2020 included in this offering memorandum had been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in their report appearing herein, and in our annual report for the year ended December 31, 2019 and 2020.

For the purpose of the offers and sales outside the United States in reliance on Regulation S, PricewaterhouseCoopers, Certified Public Accountants, have acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this offering memorandum.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in Bermuda, British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a resolution of our Board of Directors dated May 17, 2021.

LITIGATION

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the New Notes.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2020 that is material in the context of the issue of the New Notes.

DOCUMENTS AVAILABLE

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

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

CLEARING SYSTEM AND SETTLEMENT

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

| ISIN | Common Code |
|--------------|-------------|
| XS2272702338 | 227270233 |

Only Notes evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE NEW NOTES

The Original Notes are listed and quoted on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the subsidiaries or associated companies of the Issuer, the Company, or the Notes. 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 definitive notes, the Issuer will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for definitive notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

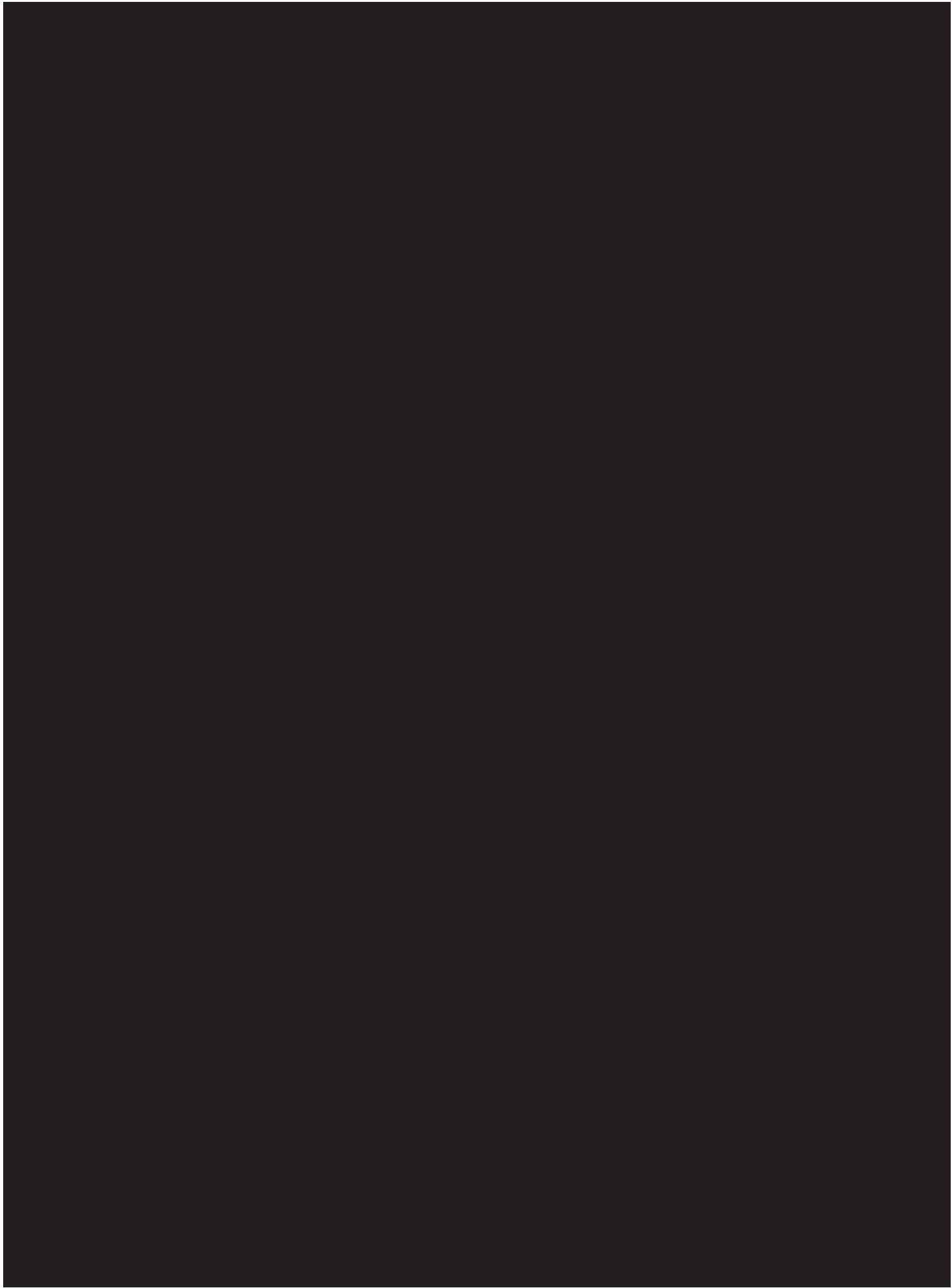
| | | <u>2020 Annual Report</u> |
|--|------|-----------------------------------|
| Independent Auditor's Report | F-2 | 89 |
| Consolidated Statement of Comprehensive Income..... | F-8 | 95 |
| Consolidated Balance Sheet | F-9 | 96 |
| Consolidated Statement of Changes in Equity | F-11 | 98 |
| Consolidated Statement of Cash Flows | F-12 | 99 |
| Notes to the Consolidated Financial Statements | F-13 | 100 |

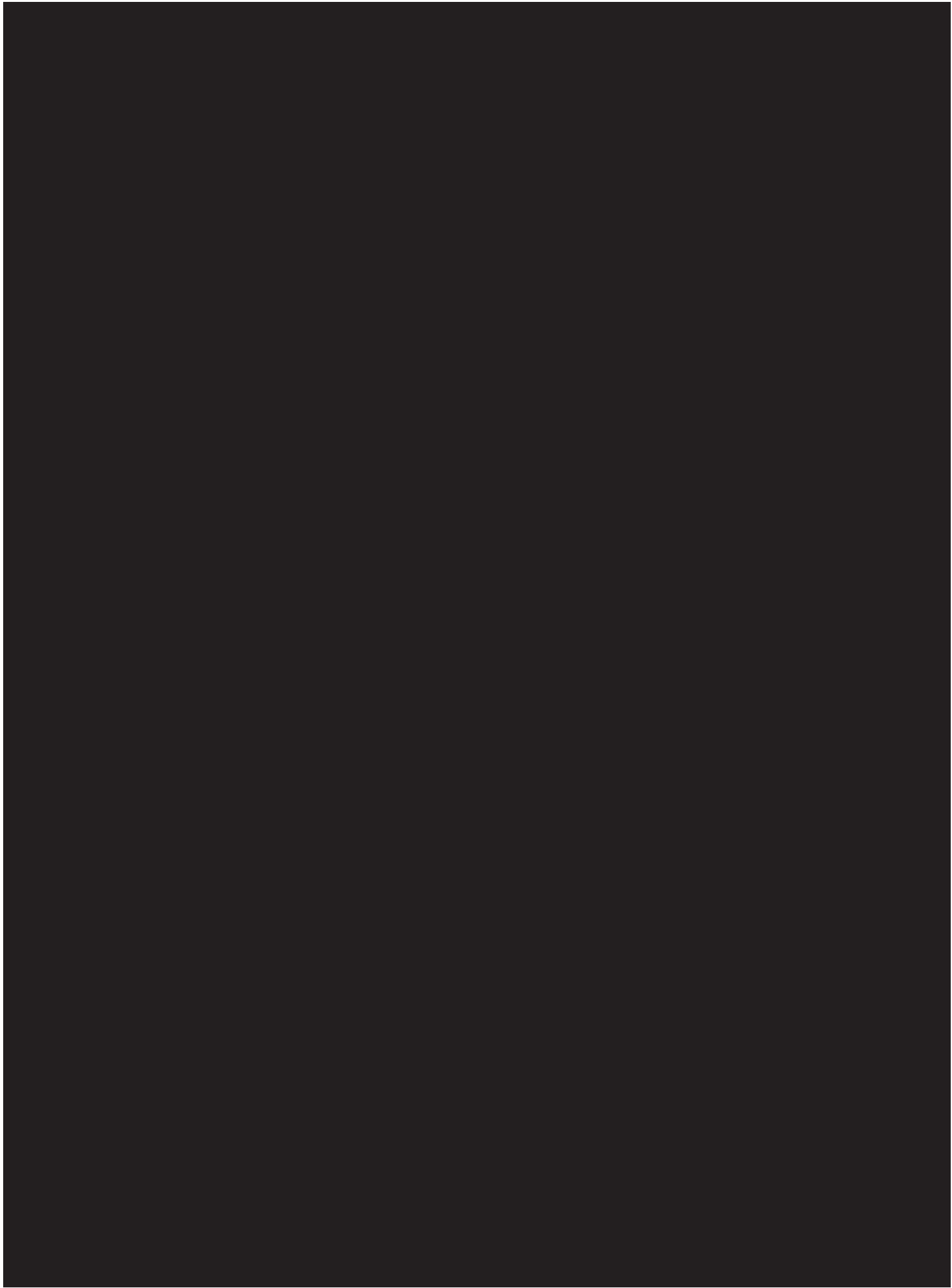
AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

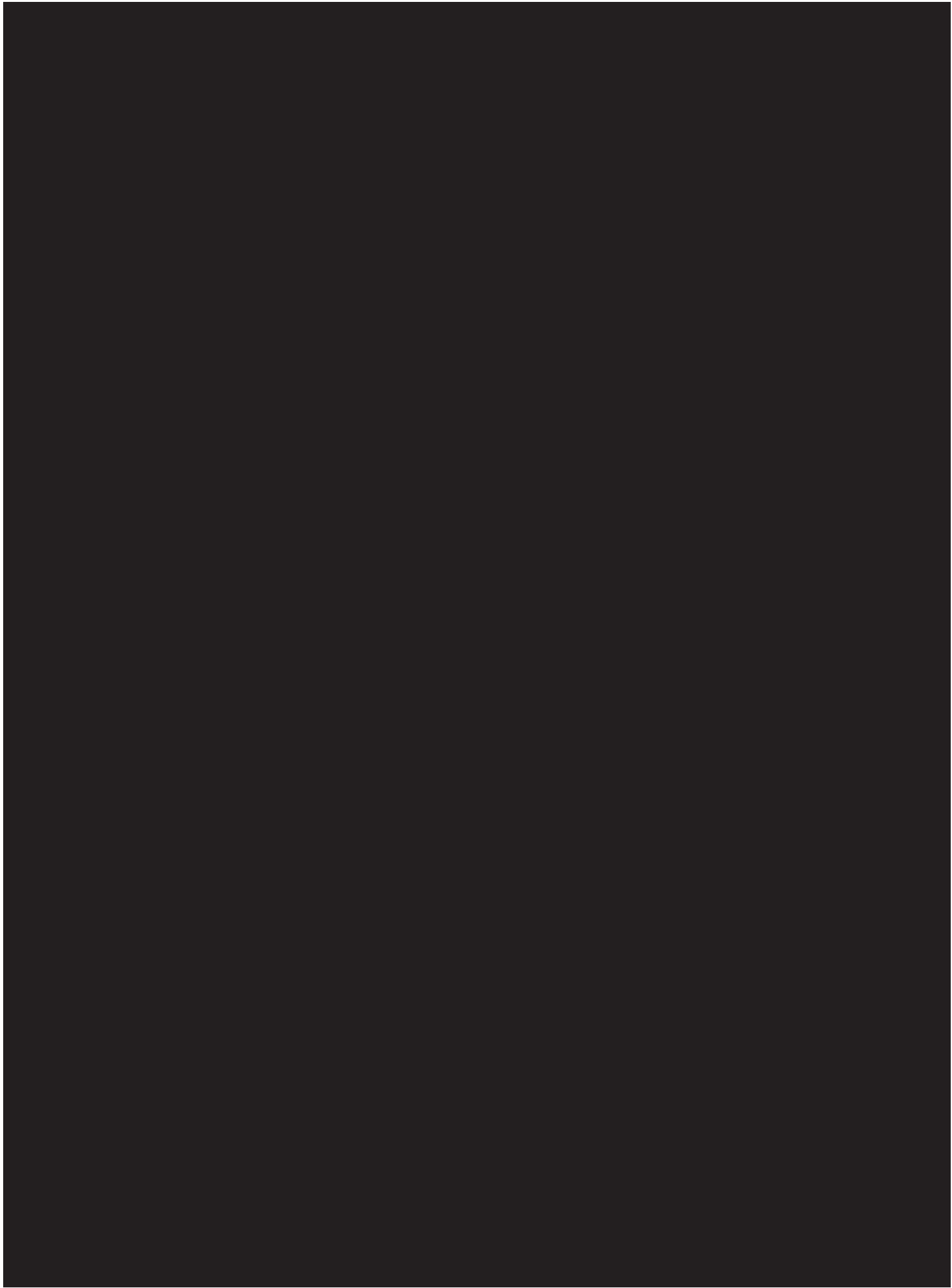
| | | <u>2019 Annual Report</u> |
|--|-------|-----------------------------------|
| Independent Auditor's Report | F-113 | 93 |
| Consolidated Statement of Comprehensive Income..... | F-119 | 99 |
| Consolidated Balance Sheet | F-120 | 100 |
| Consolidated Statement of Changes in Equity | F-122 | 102 |
| Consolidated Statement of Cash Flows | F-123 | 103 |
| Notes to the Consolidated Financial Statements | F-124 | 104 |

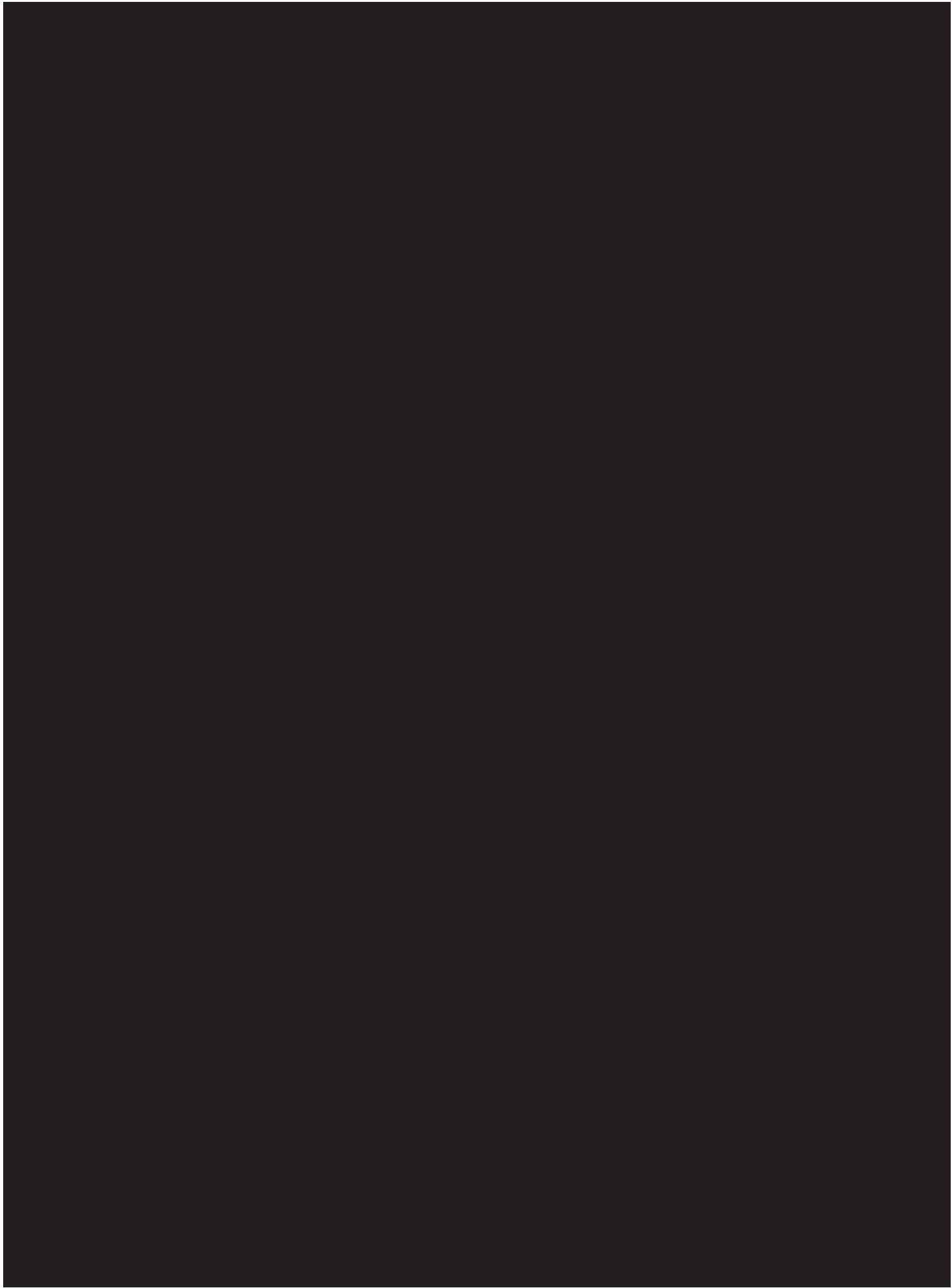
Page references included in the audited consolidated financial statements for the year ended December 31, 2019 and 2020 set forth above refer to pages in such audited consolidated financial statements as appeared in our annual reports for the year ended December 31, 2019 and 2020, as the case may be. These annual reports are not incorporated by reference herein and do not form part of this offering memorandum. The audited financial statements have not been specifically prepared for inclusion in this offering memorandum.

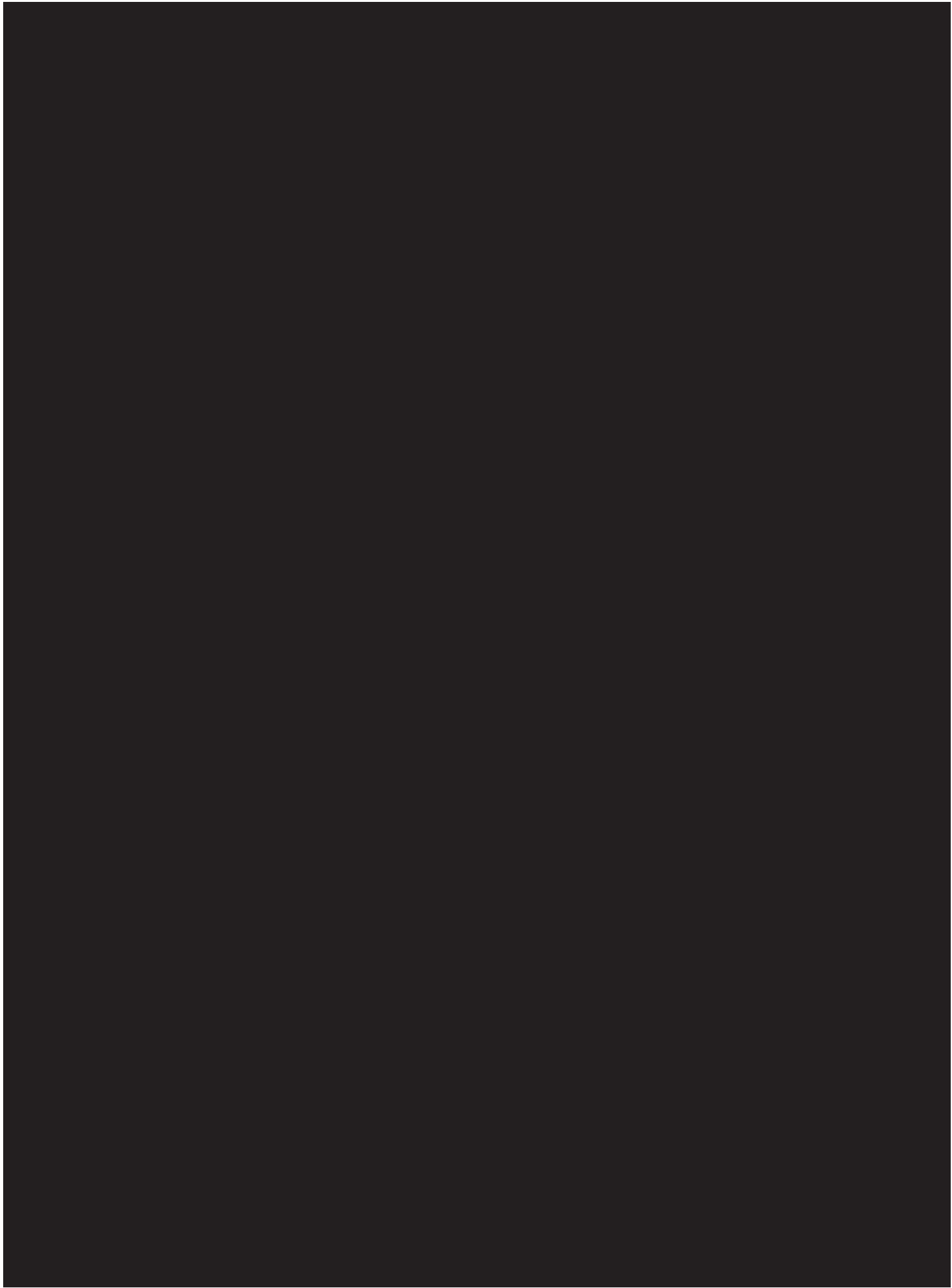


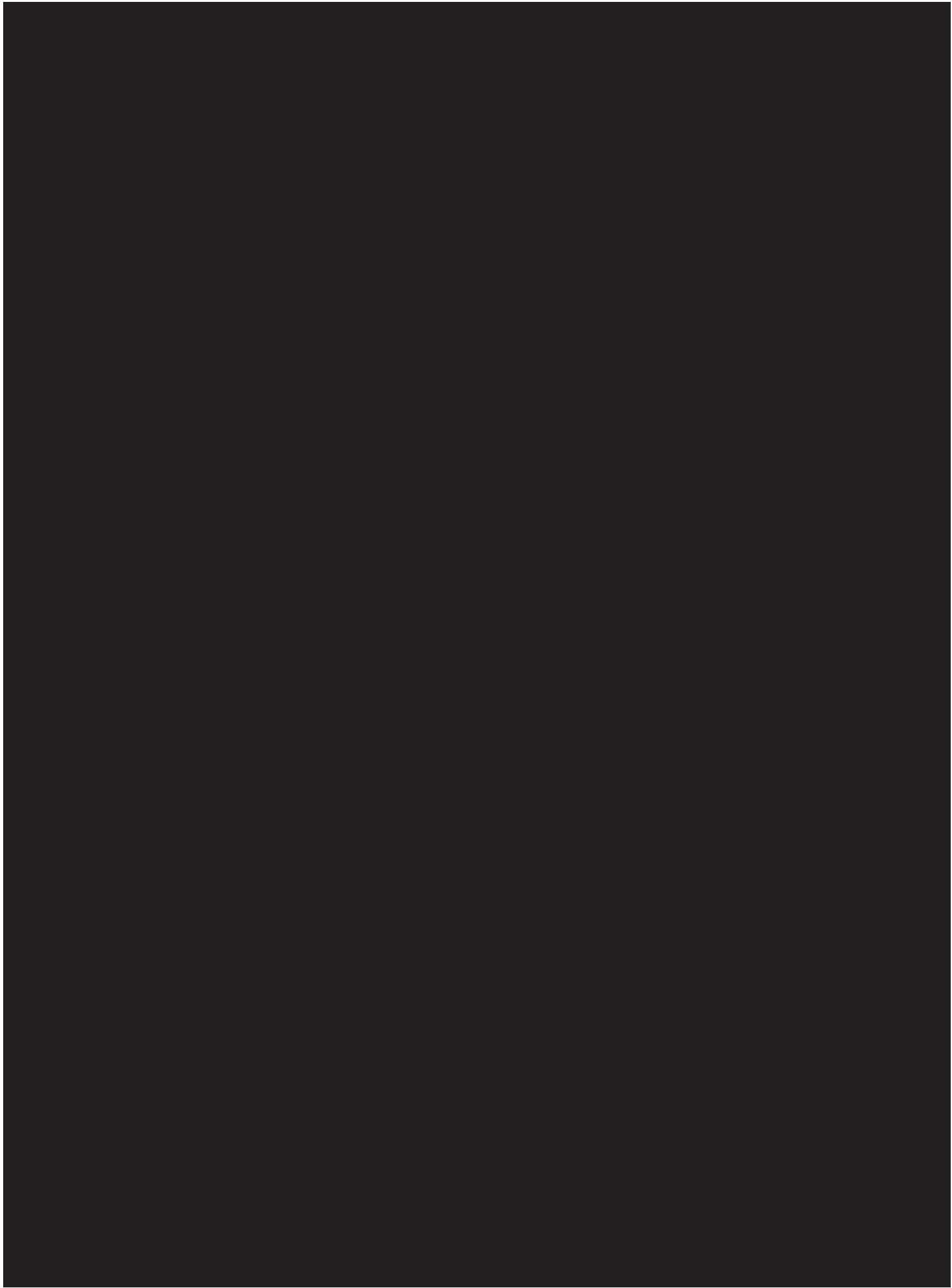


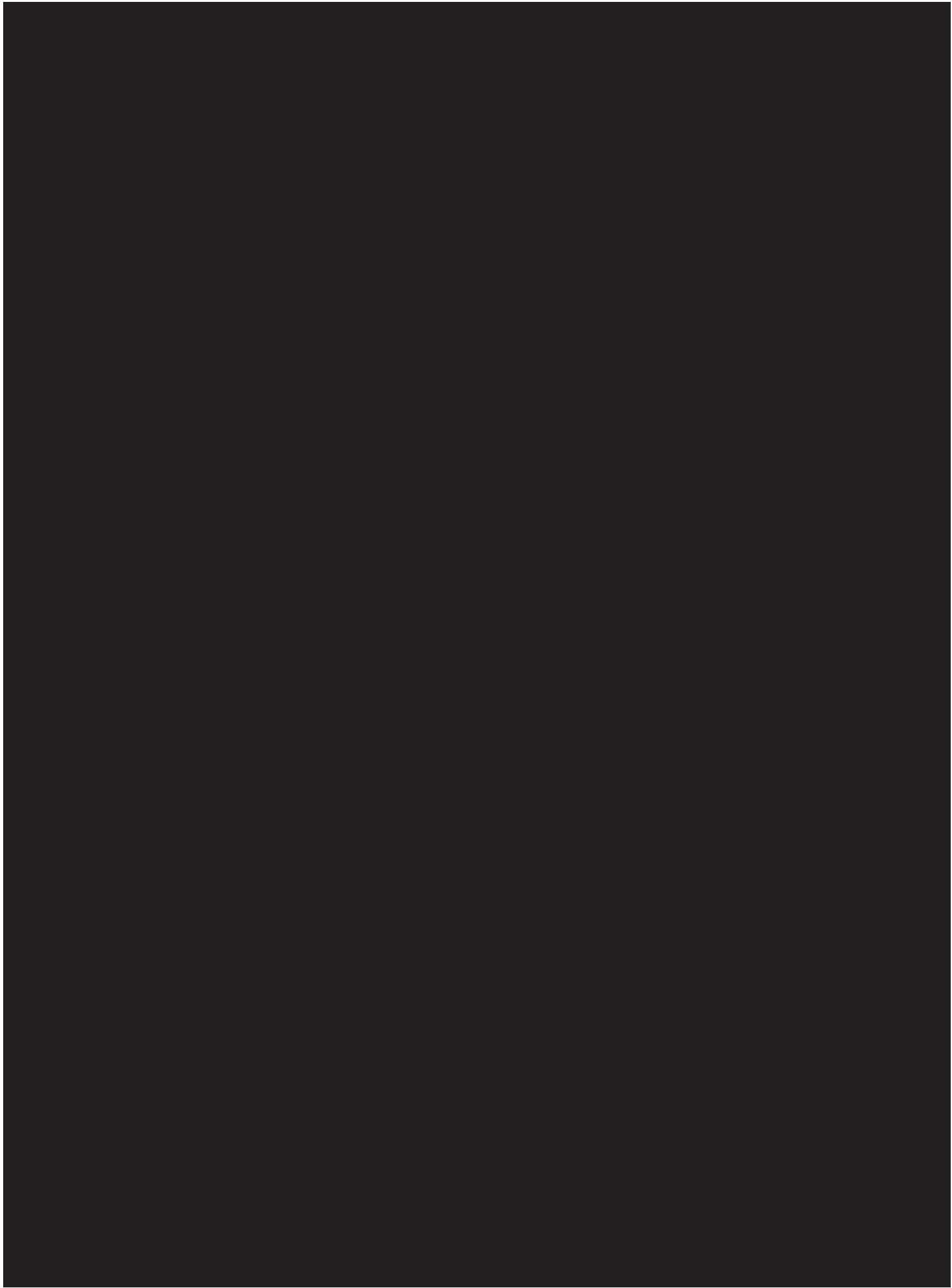












INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Skyfame Realty (Holdings) Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Skyfame Realty (Holdings) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 99 to 201, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

- Net realisable value ("NRV") assessment of properties under development ("PUD") and properties held for sale ("PHS")
- Valuation of investment properties

Key Audit Matters

How our audit addressed the Key Audit Matters

NRV assessment of PUD and PHS

Refer to notes 2.12, 18 and 19 to the consolidated financial statements.

PUD and PHS amounted to RMB10,687 million and RMB2,307 million, respectively, as at 31 December 2019. PUD and PHS are stated at the lower of cost and the NRV. The NRV are assessed by taking into account of the selling prices, variable selling expenses and estimated costs to completion of PUD based on prevailing market conditions.

No provision of impairment was made for PUD and PHS based on management's assessment as at 31 December 2019.

We focused on NRV assessment because the determination of NRV involved significant judgements and estimates on the selling prices, variable selling expenses and estimated costs to completion of PUD.

We have performed the following procedures to address this key audit matter:

- (i) We understood, evaluated and validated the key internal control over management determination of NRV including the selling prices, variable selling expenses and costs to completion of PUD;
- (ii) We assessed the Group's estimates of the anticipated costs to completion for PUD by comparing them to the budgets approved by management, examining the signed construction contracts on a sample basis, or comparing the anticipated completion costs to the actual costs of comparable properties with similar sizes, usages and locations of the Group in recent years;
- (iii) We assessed whether the variable selling expenses were reasonable with reference to historical selling expenses to selling price ratio;
- (iv) We checked selling prices to most recent selling price of the PUD and PHS or the prevailing market price of the similar type of properties in the same location.

We found that management's judgements and estimates used in the NRV assessment of PUD and PHS were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

How our audit addressed the Key Audit Matters

Valuation of investment properties

Refer to notes 2.8 and 15 to the consolidated financial statements.

The Group's investment properties are stated at fair values. As at 31 December 2019, the Group's investment properties amounted to RMB3,512 million and the fair value gains on investment properties for the year ended 31 December 2019 amounted to RMB334 million.

Management has engaged independent external valuers to assist them to perform valuations of all the investment properties. The valuations of completed investment properties are dependent on certain key assumptions that require significant judgements, including term yields and reversionary yields, fair market rents and fair market prices. The valuations of investment properties under construction are also dependent upon the estimated costs to complete and anticipated developer's profit margin.

We focus on this area because of the significance of the balance and fair value gain of investment properties to the Group's consolidated financial statements and significant judgements involved in determining the critical estimates and assumptions used in the valuations.

We have performed the following procedures to address this key audit matter:

- (i) We understood, evaluated and validated the key internal control over the valuation of investment properties including the determination of appropriate valuation models and assumptions used in determining the fair values of investment properties;
- (ii) We evaluated the competence, capabilities and objectivity of the independent external valuers;
- (iii) We checked, on a sample basis, accuracy and relevance of the input data used in the valuations, to the recent external market data;
- (iv) We assessing the appropriateness of methodologies used and the reasonableness of the key assumptions applied in the valuations with the involvement of our internal valuation specialist. We assessed the term yields, reversionary yields, fair market rents and fair market prices used in the valuations to recent comparable transactions and market research of similar comparable data in similar locations of the Group's investment properties; and
- (v) In addition to the above, for investment properties under construction, we assessed the reasonableness of management's estimates of costs to complete by checking, on a sample basis, the total budgeted construction costs against the signed contracts with vendors and actual construction costs of similar properties and the actual costs incurred up to date of balance sheet. For the anticipated developer's profit margin, we compared against the historical developer's profit margin of similar properties of the Group.

We found the key estimates and assumptions used in the valuation of investment properties were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF 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 is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

INDEPENDENT AUDITOR'S REPORT

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 this independent auditor's report is Yeung Chor Ho.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December | |
|---|------|------------------------|-----------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 5 | 6,591,043 | 6,191,763 |
| Cost of sales and services | 8 | <u>(4,691,703)</u> | <u>(4,305,878)</u> |
| Gross profit | | 1,899,340 | 1,885,885 |
| Other income | | 21,571 | 2,283 |
| Other gains - net | 6 | 9,522 | 87,096 |
| Sales and marketing expenses | 8 | (249,765) | (156,851) |
| Administrative and other expenses | 8 | (367,894) | (319,245) |
| Impairment loss of trade and other receivables | | (15,383) | (6,245) |
| Fair value changes in investment properties | 15 | <u>334,267</u> | <u>269,702</u> |
| Operating profit | | 1,631,658 | 1,762,625 |
| Share of loss of joint ventures, net of tax | | (20,629) | (8,101) |
| Finance costs - net | 7 | <u>(31,179)</u> | <u>(110,422)</u> |
| Profit before income tax | | 1,579,850 | 1,644,102 |
| Income tax expense | 10 | <u>(747,868)</u> | <u>(823,346)</u> |
| Profit for the year | | <u>831,982</u> | <u>820,756</u> |
| Other comprehensive income, items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | <u>2,211</u> | <u>(4,043)</u> |
| Total comprehensive income for the year | | <u>834,193</u> | <u>816,713</u> |
| Profit for the year attributable to: | | | |
| – Owners of the Company | | 792,258 | 751,315 |
| – Non-controlling interests | | <u>39,724</u> | <u>69,441</u> |
| | | <u>831,982</u> | <u>820,756</u> |
| Total comprehensive income for the year attributable to: | | | |
| – Owners of the Company | | 794,469 | 747,272 |
| – Non-controlling interests | | <u>39,724</u> | <u>69,441</u> |
| | | <u>834,193</u> | <u>816,713</u> |
| Earnings per share | | | |
| – Basic | | <u>RMB0.102</u> | <u>RMB0.095</u> |
| – Diluted | | <u>RMB0.101</u> | <u>RMB0.092</u> |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

| | Note | 31 December | |
|--|------|-------------------|-------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 454,108 | 693,859 |
| Right-of-use assets | 14 | 243,593 | – |
| Investment properties | 15 | 3,512,291 | 2,907,157 |
| Financial asset at fair value through profit or loss | 16 | 329,828 | 10,000 |
| Interest in joint ventures | 17 | 46,295 | 15,899 |
| Derivative financial assets | 22 | – | 60,388 |
| Deferred tax assets | 23 | 84,311 | 25,649 |
| | | 4,670,426 | 3,712,952 |
| Current assets | | | |
| Properties under development | 18 | 10,686,501 | 7,554,327 |
| Properties held for sale | 19 | 2,307,057 | 4,144,040 |
| Trade receivables | 20 | 440,184 | 196,440 |
| Other receivables and prepayments | 21 | 2,686,068 | 2,461,839 |
| Contract costs | 24 | 152,882 | 80,698 |
| Restricted and pledged deposits | 26 | 336,029 | 676,630 |
| Cash and cash equivalents | 27 | 1,572,618 | 2,410,063 |
| | | 18,181,339 | 17,524,037 |
| Total assets | | 22,851,765 | 21,236,989 |
| Equity | | | |
| Share capital | 31 | 24,670 | 24,659 |
| Other reserves | 32 | 1,313,332 | 1,325,407 |
| Retained earnings | 32 | 2,201,171 | 1,563,359 |
| Equity attributable to owners of the Company | | 3,539,173 | 2,913,425 |
| Non-controlling interests | | 210,873 | 390,134 |
| Total equity | | 3,750,046 | 3,303,559 |

CONSOLIDATED BALANCE SHEET

| | | 31 December | |
|-------------------------------------|-------------|-------------------|-------------------|
| | <i>Note</i> | 2019 | 2018 |
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current liabilities | | | |
| Bank and other borrowings | 22 | 4,330,684 | 3,534,510 |
| Derivative financial liabilities | 22 | – | 8,757 |
| Deferred tax liabilities | 23 | 585,051 | 594,856 |
| | | 4,915,735 | 4,138,123 |
| Current liabilities | | | |
| Bank and other borrowings | 22 | 1,929,664 | 2,817,188 |
| Derivative financial liabilities | 22 | 670 | 2,138 |
| Trade and other payables | 28 | 3,542,819 | 2,164,105 |
| Contract liabilities | 29 | 8,050,565 | 8,559,878 |
| Income tax payable | | 662,266 | 251,998 |
| | | 14,185,984 | 13,795,307 |
| Total liabilities | | 19,101,719 | 17,933,430 |
| Total equity and liabilities | | 22,851,765 | 21,236,989 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 99 to 201 were approved by the Board of Directors on 20 March 2020 and were signed on its behalf.

Jin Zhifeng
Director

Wang Chenghua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Note | Attributable to owners of the Company | | | | | | | | | | |
|---|---------------------------------------|---------------|-----------------------------|------------------------------------|--------------------------|----------------|------------------|-----------|---------------------------|-----------|-----------|
| | Share capital | Share premium | Share-based payment reserve | Share held for share award reserve | Foreign exchange reserve | Other reserves | Retained profits | Sub-total | Non-controlling interests | Total | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| At 1 January 2019 | 24,659 | 1,691,673 | 20,847 | (114,691) | (2,657) | (269,765) | 1,563,359 | 2,913,425 | 390,134 | 3,303,559 | |
| Profit for the year | - | - | - | - | - | - | 792,258 | 792,258 | 39,724 | 831,982 | |
| Other comprehensive income | - | - | - | - | 2,211 | - | - | 2,211 | - | 2,211 | |
| Total comprehensive income for the year | - | - | - | - | 2,211 | - | 792,258 | 794,469 | 39,724 | 834,193 | |
| Transaction with owners: | | | | | | | | | | | |
| Repurchase of shares | 31 | (54) | (16,366) | - | - | - | - | (16,420) | - | (16,420) | |
| Purchase of shares for share award scheme | 34 | - | - | - | (29,223) | - | - | (29,223) | - | (29,223) | |
| Issue of shares: Exercise of share options issue | 31, 33 | 65 | 9,364 | (3,075) | - | - | - | 6,354 | - | 6,354 | |
| Arising on acquisition of subsidiaries | | - | - | - | - | - | - | - | 33,484 | 33,484 | |
| Employee share option and share award schemes | 33 | - | - | 30,848 | - | - | - | 30,848 | - | 30,848 | |
| Reallocation of lapsed options from share-based payment reserve to retained profits | | - | - | (5,834) | - | - | 5,834 | - | - | - | |
| Final dividend for 2018 | 12 | - | - | - | - | - | (160,280) | (160,280) | - | (160,280) | |
| Distributions | | - | - | - | - | - | - | - | (72,469) | (72,469) | |
| Others | | - | - | - | - | - | - | - | (180,000) | (180,000) | |
| At 31 December 2019 | | 24,670 | 1,684,671 | 42,786 | (143,914) | (446) | (269,765) | 2,201,171 | 3,539,173 | 210,873 | 3,750,046 |
| At 1 January 2018 | | 24,469 | 1,664,749 | 24,636 | - | 1,386 | (269,765) | 898,131 | 2,343,606 | 52,598 | 2,396,204 |
| Profit for the year | | - | - | - | - | - | 751,315 | 751,315 | 69,441 | 820,756 | |
| Other comprehensive expenses | | - | - | - | - | (4,043) | - | (4,043) | - | (4,043) | |
| Total comprehensive income for the year | | - | - | - | - | (4,043) | 751,315 | 747,272 | 69,441 | 816,713 | |
| Transaction with owners: | | | | | | | | | | | |
| Issue of shares: Exercise of share options issue | 33 | 190 | 26,924 | (9,498) | - | - | - | 17,616 | - | 17,616 | |
| Capital contribution | | - | - | - | - | - | - | - | 11 | 11 | |
| Arising on acquisition of subsidiaries | | - | - | - | - | - | - | - | 268,084 | 268,084 | |
| Share-based payment expenses | 33 | - | - | 5,709 | - | - | - | 5,709 | - | 5,709 | |
| Purchase of shares for share award scheme | 34 | - | - | - | (114,691) | - | - | (114,691) | - | (114,691) | |
| Final dividend for 2017 | | - | - | - | - | - | (86,087) | (86,087) | - | (86,087) | |
| At 31 December 2018 | | 24,659 | 1,691,673 | 20,847 | (114,691) | (2,657) | (269,765) | 1,563,359 | 2,913,425 | 390,134 | 3,303,559 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December | |
|--|-------|------------------------|--------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 67,063 | 3,101,396 |
| PRC corporate income tax paid | | (266,710) | (595,812) |
| PRC land appreciation tax paid | | (139,357) | (102,782) |
| Cash (used in)/generated in operating activities | 35(a) | (339,004) | 2,402,802 |
| Cash flows from investing activities | | | |
| Interest received | | 24,967 | 17,669 |
| Acquisition of subsidiaries, net of cash acquired | | (50,000) | (481,369) |
| Purchases of property, plant and equipment | | (8,548) | (18,505) |
| Acquisition of assets | | (96) | (193,973) |
| Investment in a joint venture | | (51,025) | (24,000) |
| Advanced from a joint venture | | – | 55,817 |
| Acquisition of financial assets | | (315,434) | – |
| Purchase of short-term investments | | (427,000) | – |
| Proceeds from short-term investments | | 427,000 | 100,000 |
| Loan to a third party | | (349,000) | – |
| Repayments from non-controlling shareholders of subsidiaries | | 29,402 | – |
| Decrease in restricted and pledged deposits | | 340,601 | 636,634 |
| Net cash (used in)/generated from investing activities | | (379,133) | 92,273 |
| Cash flows from financing activities | | | |
| Repurchase of ordinary shares | | (16,420) | – |
| Purchase of ordinary shares for share award scheme | | (29,223) | (114,691) |
| Proceeds from issue of ordinary shares for share option scheme | | 6,354 | 17,616 |
| Advance from a joint venture | | 885,715 | – |
| Proceeds from bank and other borrowings | 35(b) | 3,254,670 | 4,797,745 |
| Repayment of bank and other borrowings | 35(b) | (3,517,277) | (6,797,103) |
| Interest and other borrowing costs paid | | (467,620) | (872,894) |
| Dividend paid to owners of the Company | | (160,280) | (86,087) |
| Dividend paid to non-controlling interests | | (72,469) | – |
| Capital contributions from non-controlling interests of subsidiaries | | – | 2,712 |
| Net cash used in financing activities | | (116,550) | (3,052,702) |
| Net decrease in cash and cash equivalents | | (834,687) | (557,627) |
| Effect of exchange rate changes on cash and cash equivalents | | (2,758) | (16,109) |
| Cash and cash equivalents at beginning of year | | 2,410,063 | 2,983,799 |
| Cash and cash equivalents at end of year | 27 | 1,572,618 | 2,410,063 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 GENERAL

Skyfame Realty (Holdings) Limited (the “**Company**”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Its (a) registered office, (b) head office and principal place of business in the People’s Republic of China (“**PRC**”), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company and its subsidiaries are hereinafter collectively referred to as the “**Group**”. The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

These financial statements have been approved for issue by the board of directors (the “**Board**”) of the Company on 20 March 2020.

These financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) *Compliance with HKFRSs and HKCO*

These consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622 (“**HKCO**”).

(ii) *Historical cost convention*

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties which are carried at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(iii) *New and amended standards and interpretation adopted by the Group*

| | |
|-----------------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC) Interpretation 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Annual Improvements | Annual Improvements to HKFRS Standards 2015-2017 Cycle |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |

Save for the impact of adoption of HKFRS 16 set out in Note 2.2, the adoption of other new and amended standards and interpretation did not have any material impact on the consolidated financial statements of the Group.

(iv) *New standards, amendments and interpretation not yet adopted*

The following new standards and amendments and interpretation to standards have been published that are not effective for the year ended 31 December 2019 and have not been early adopted by the Group:

| | | Effective for annual periods beginning on or after |
|--|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| Amendments to HKFRS 3 Financial Reporting | Definition of a Business Revised Conceptual Framework | 1 January 2020 1 January 2020 |
| HKFRS 39, HKFRS 7 and HKFRS 9 | Hedge Accounting (amendments) | 1 January 2020 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture | To be determined |

These new and amended standards and revised framework are not expected to have a material impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial information and the new accounting policies that have been first applied from 1 January 2019.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.26.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. The Group mainly has land use rights in PRC which are recognised as right-of-use assets, others are short-term leases which are recognised as expense on a straight-line basis.

(i) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

(ii) Measurement of right-of-use assets

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The land use rights in property, plant and equipment are reclassified to right-of-use assets as at 31 December 2019, respectively.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| | As at 1 January 2019 RMB'000 |
|---|---------------------------------------|
| Property, plant and equipment (land use rights) | (255,704) |
| Right-of-use assets | 255,704 |

There was no significant impact on the Group's net profit after tax for the year ended 31 December 2019 as a result of adoption of HKFRS 16.

(iv) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of identifiable assets and liabilities of the joint venture is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.6 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). These consolidated financial statements are presented in RMB, which is the Company’s functional and the Group’s presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within ‘finance costs – net’. All other foreign exchange gains and losses are presented in the statement of comprehensive income within ‘Other gains – net’.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(c) *Group entities*

The results and financial positions of the Group’s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet of the Group’s entities are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated statement of comprehensive income of the Group’s entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(c) Group entities (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. Depreciation on Property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in case of leasehold improvements, and certain leased plants and equipment, the shorter lease term, as follows:

| | |
|-----------------------------------|-------------|
| Buildings | 12-30 years |
| Furniture, fixtures and equipment | 2-10 years |
| Motor vehicles | 3-10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains – net' in the consolidated statement of comprehensive income.

Assets under construction are stated at historical cost less any impairment loss. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights during the construction period, borrowing costs on qualifying assets and professional fees incurred during the development period. On completion, the assets are transferred to buildings within Property, plant and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land and commercial buildings held under leases are accounted for as investment properties when the rest of the definition of an investment property is met. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuer. Property that is being constructed or developed for future use as investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flows projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- Status of construction permits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment property (continued)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values of investment property are recognised as 'Fair value changes in investment properties' in the consolidated statement of comprehensive income.

Completed properties held for sale are transferred to investment properties when it 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 shall be recognised in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as Property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and charged directly to revaluation reserves within equity. Any resulting decrease in the carrying amount of the property is charged to the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group categorises its debt instruments as amortised cost, which are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(b) Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss accounts. Dividends from such investments continue to be recognised in profit or loss accounts as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognised as 'Other gains – net' in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. The Group held no equity investments measured at FVOCI during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

2.10.3 Impairment

The Group assesses on a forward looking basis the expected credit losses (“ECLs”) associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 20 for further details.

Impairment on other financial assets at amortised cost is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Development cost of property comprises cost of land use rights, construction costs, borrowing costs on qualifying assets, and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond a normal operating cycle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.14 Contract costs and liabilities and costs for obtaining contracts

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract costs if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

The Group recognises the incremental costs of obtaining a contract with a customer within contract costs if the Group expects to recover those costs.

2.15 Cash and cash equivalents and restricted cash

Cash and cash equivalent includes cash in hand and at banks and deposits held at call with banks, other short-term highly liquid investment with original maturities of three months or less.

Bank deposits which are restricted to use are included in 'Restricted cash'. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share are shown in equity as a deduction, net of tax, from the proceeds.

Where any entity of the Group purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings and borrowing costs (continued)

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Current and deferred income tax (continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits

(a) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("**MPF Scheme**"), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Share-based payments

Equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options or shares) of the Group. The fair value of the employee services received in exchange for the grant of the options or shares is recognised as expense. The total amount to be expensed is determined by reference to the fair value of the options or shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options or shares that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.23 Revenue recognition

Revenue is measured at the consideration received or receivable for the sales of properties and rendering of services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales within the Group. The Group recognises revenue when specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of properties

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

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

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation that best depict the Group's performance in satisfying the performance obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

(a) *Sales of properties (continued)*

For property development and sales contract for which the control of the property is transferred at a point in time and there is no enforceable right to payment from the customers for performance completed to date, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

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

(b) *Property investment*

Rental income from properties letting under operating leases is recognised on a straight line basis over the term of the lease.

(c) *Property management*

Revenues from rendering of property management services are recognised in the accounting period in which the related services are rendered.

(d) *Commercial operation*

Revenues from commercial operations are recognised in the accounting period in which the related services are rendered.

Financial components

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price and the amount of revenue from the sales of completed properties is adjusted for the effects of a financing component, if significant. For the year ended 31 December 2019 and 2018, the Group has assessed and considered that the financing component effect is insignificant.

2.24 Interest income

Interest income from financial assets at FVTPL is included in the Other gains – net on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated statement of comprehensive income within 'Other income'.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). Dividends are recognised as other income in profit or loss when the right to receive payment is established.

2.26 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset which was recognised as investment properties is carried at fair value at each reporting date after initial recognition and others being included in property and equipment is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Leases (continued)

Variable lease payments based on an index or a rate are initially measured using the index or the rate at the commencement date. The Group do not forecast future changes of the index/rate; these changes are taken into account when the lease payments change. Variable lease payments that are not based on an index or a rate are not part of the lease liability, but they are recognised in profit or loss when the events or conditions that triggers those payments occurs.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 5). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.27 Dividend distribution

Dividend distribution to the owners of the Company is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the owners of the Company.

2.28 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

3.1 Financial risk factor

(a) *Market risk*

(i) *Foreign exchange risk*

The Group's businesses are principally conducted in RMB. The Group has transactional currency exposures. Such exposures arise from financing and operating activities of the Group's entities conducted in currencies other than the functional currency. As at 31 December 2019, major non-RMB assets and liabilities are cash and cash equivalents, FVTPL, and bank and other borrowings, which are dominated in Hong Kong dollar ("HK\$") or US dollar ("US\$"). Fluctuation of the exchange rate of RMB against HK\$ or US\$ could affect the Group's results of operations. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective Group's entities at the end of the reporting period are as follows:

| | 31 December | |
|--|-------------|-------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Financial asset at fair value through profit or loss | | |
| – US\$ | 319,828 | – |
| Derivative financial asset | | |
| – HK\$ | – | 60,388 |
| Cash and cash equivalents | | |
| – US\$ | 28,623 | 3,731 |
| – HK\$ | 1,949 | 68,165 |
| Bank and other borrowings | | |
| – US\$ | (2,005,986) | (202,186) |
| – HK\$ | (2,220,087) | (2,157,092) |
| Derivative financial liabilities | | |
| – HK\$ | (670) | (10,895) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US\$ and HK\$ exchange rates, with all other variables held constant, on the Group's profit after income tax in the next accounting period:

| | Year ended 31 December | | | |
|---------------------------------|-------------------------------|--|-------------------------------|--|
| | 2019 | | 2018 | |
| | Change in exchange rate | Increase (decrease) in profit after income tax | Change in exchange rate | Increase (decrease) in profit after income tax |
| | % | RMB'000 | % | RMB'000 |
| If US\$ weakens against RMB | 4% | 66,301 | 4% | 7,938 |
| If US\$ strengthens against RMB | 4% | (66,301) | 4% | (7,938) |
| If HK\$ weakens against RMB | 4% | 88,752 | 4% | 81,577 |
| If HK\$ strengthens against RMB | 4% | (88,752) | 4% | (81,577) |

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from long-term borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group's exposure to changes in interest rates is mainly attributable to its long-term borrowings. As at 31 December 2019, long-term borrowings of the Group bearing floating interest rates amounted to approximately RMB1,277,390,000 (2018: RMB1,627,588,000). If interest rates on borrowings at floating rates as at 31 December 2019 had been 50 basis point higher/lower with all other variables held constant, interest charges for the year would increase/decrease by RMB6,386,900 (2018: RMB8,137,900), most of which would have been capitalised in qualified assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk

The Group has no concentrations on credit risk. The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents (excluding cash on hand), restricted cash, trade receivables, other receivables, contract costs and financial assets at fair value through profit or loss shown in the consolidated balance sheets.

Cash transactions are limited to high credit quality institutions. Deposits are only placed with reputable banks.

For the trade receivables arising from sales of properties, the Group closely monitors repayment progress of the customers in accordance with the terms as specified in the enforceable contracts. The Group has set up policies to ensure follow-up action is taken to recover overdue debts. The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 50% to 70% of the total purchase price of the properties. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the property sales proceeds received from the customers and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is minimal. Detailed disclosure of these guarantees is made in Note 30. The Group managed the credit risk by fully receiving cash or properly arranging the purchasers' mortgage loans financing procedures before delivery of properties unless strong credit records of the customers could be established. The Group closely monitors the collection of progress payments from customers in accordance with payment schedule agreed with customers. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments.

For other receivable, the Group assessed the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The directors of the Company are of the opinion that the risk of default by counter parties is low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data. The loss allowance provision for the Group's financial assets were not material as at 31 December 2019 and 31 December 2018.

(i) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables from third parties and related parties.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days of initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(i) Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade and other receivables as at 31 December 2019 and 31 December 2018:

| Trade receivables | As at 31 December 2019 | | |
|----------------------------------|------------------------|--------------------|-------------------|
| | Expected loss rate | Gross | Loss allowance |
| | | carrying amount | |
| | % | RMB'000 | RMB'000 |
| Within 30 days | 0.1% | 112,253 | (112) |
| Over 30 days and within 90 days | 2% | 3,277 | (66) |
| Over 90 days and within 365 days | 5% | 322,337 | (16,117) |
| Over 365 days | 10% | 20,680 | (2,068) |
| | | <u>458,547</u> | <u>(18,363)</u> |
| | | | |
| Trade receivables | As at 31 December 2018 | | |
| | Expected loss rate | Gross | Loss allowance |
| | | carrying amount | |
| | % | RMB'000 | RMB'000 |
| Within 30 days | 0.1% | 804 | (1) |
| Over 30 days and within 90 days | 2% | 175,294 | (3,506) |
| Over 90 days and within 365 days | 5% | 22,366 | (1,118) |
| Over 365 days | 10% | 2,890 | (289) |
| | | <u>201,354</u> | <u>(4,914)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(ii) Other receivables

Other financial assets at amortised cost include other receivables from third parties.

For other categories of other receivables which have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and thus the loss allowance is immaterial.

The loss allowance provision for other receivables from third parties as at 31 December 2019 reconcile to the opening loss allowance for that provision as follows:

| | Other receivables | |
|---|-------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Opening loss allowance as at 1 January | 4,976 | – |
| Increase in loss allowance recognised in profit or loss during the year | 1,934 | 4,976 |
| Closing loss allowance as at 31 December | 6,910 | 4,976 |

For the years ended 31 December 2019 and 2018, the provision for loss allowance were recognised in profit or loss in "Impairment loss of trade and other receivables" in relation to the impaired other receivables.

Expected loss of other receivables was not material during the years ended 31 December 2019 and 2018 as there was no recent history of default and management considered the credit risk is low.

As at 31 December 2019 and 2018, the maximum exposure to loss of other receivables from third parties and related parties were the carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factor (continued)

(c) Liquidity risk

Management of the Group aims to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through available sources of financing.

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include control on investment in land bank, adjusting project development timetable to adapt the changing local real estate market environment, implementing cost control measures, promotion of sales of completed properties, accelerating sales with more flexible pricing. The Group will pursue such options basing on its assessment of relevant future costs and benefits.

The table below sets out the Group's financial liabilities by relevant maturity grouping at each statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows:

| Note | Total undiscounted cash flow | | | | | | Total | Carrying amount |
|---|------------------------------|--------------------|------------------|------------------|------------------|------------------|-------------------|------------------|
| | On demand | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 31 December 2019 | | | | | | | | |
| Trade and other payables, excluding accrued taxes and surcharges and salaries payable | 1,009,150 | 66,473 | 2,328,884 | - | - | - | 3,404,507 | 3,404,507 |
| Bank and other borrowings (i) | - | 666,668 | 1,421,016 | 1,130,561 | 2,831,595 | 4,771,172 | 10,821,012 | 6,260,348 |
| Guarantee for property mortgage | 9,917,542 | - | - | - | - | - | 9,917,542 | - |
| | 10,926,692 | 733,141 | 3,749,900 | 1,130,561 | 2,831,595 | 4,771,172 | 24,143,061 | 9,664,855 |
| As at 31 December 2018 | | | | | | | | |
| Trade and other payables, excluding accrued taxes and surcharges and salaries payable | 82,982 | 55,375 | 1,858,684 | - | - | - | 1,997,041 | 1,997,041 |
| Bank and other borrowings (i) | 156,690 | 69,788 | 1,815,900 | 2,541,059 | 540,683 | 4,913,773 | 10,037,893 | 6,351,698 |
| Guarantee for property mortgage | 7,617,557 | - | - | - | - | - | 7,617,557 | - |
| | 7,857,229 | 125,163 | 3,674,584 | 2,541,059 | 540,683 | 4,913,773 | 19,652,491 | 8,348,739 |

(i) Interest on bank and other borrowings is calculated on borrowings held as at 31 December 2019 and 2018 respectively. Floating-rate interest is estimated using the current interest rate as at 31 December 2019 and 2018 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents (Note 27) and less guarantee deposits for bank borrowings included in restricted cash (Note 26). Total borrowings comprise corporate bonds, bank borrowings and other borrowings (Note 22). Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2019 and 2018 are as follows:

| | 31 December | |
|--|-------------|-------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Total borrowings (Note 22) | 6,260,348 | 6,351,698 |
| Less: cash and cash equivalents (Note 27) | (1,572,618) | (2,410,063) |
| Less: guarantee deposits for bank borrowings (Note 26) | (12,000) | (45,410) |
| Net debt | 4,675,730 | 3,896,225 |
| Total equity | 3,750,046 | 3,303,559 |
| Total capital | 8,425,776 | 7,199,784 |
| Gearing ratio | 55.5% | 54.1% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

See Note 15 for disclosures of the investment properties that are measured at fair value.

The following table presents the Group's financial assets and liability that are measured at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value:

| | Level 1 <i>RMB'000</i> | Level 2 <i>RMB'000</i> | Level 3 <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---------------------------|---------------------------|---------------------------|-------------------------|
| At 31 December 2019 | | | | |
| Financial assets: | | | | |
| Financial assets at fair value through | | | | |
| profit or loss (<i>Note 16</i>) | – | 329,828 | – | 329,828 |
| Derivative financial assets | – | – | – | – |
| Financial liabilities: | | | | |
| Derivative financial liabilities | – | – | 670 | 670 |
| At 31 December 2018 | | | | |
| Financial assets: | | | | |
| Financial assets at fair value through | | | | |
| profit or loss (<i>Note 16</i>) | – | – | 10,000 | 10,000 |
| Derivative financial assets | – | – | 60,388 | 60,388 |
| Financial liabilities: | | | | |
| Derivative financial liabilities | – | – | 10,895 | 10,895 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The fair value of financial assets at fair value through profit or loss in level 2 were determined mainly based on valuation report provided by managing companies, which making reference to quoted market price.

The fair value of derivative financial assets/liabilities in level 3 is estimated by the hull-white trinomial tree at rates that reflect management's best estimation of the expected risk level. The significant unobservable inputs of the valuation techniques include discount rates and short-term volatility parameter that correspond to the expected risk level.

| Financial assets/liabilities | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|----------------------------------|----------------------|-------------------------------------|--|---|
| Derivative financial assets | Level 3 | The hull-white trinomial tree | Discount Rate Short-term volatility parameter | Higher the discount rate, lower the value of the company's redemption rights Higher the short-term volatility parameter, higher the value of the company's redemption rights |
| Derivative financial liabilities | Level 3 | The hull-white trinomial tree | Discount Rate Short-term volatility parameter | Higher discount rate, higher value of the holder's redemption rights Higher the short-term volatility parameter, higher value of the holder's redemption rights |

For the year ended 31 December 2019, if the fair values of the financial assets at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax would have been approximately RMB32,915,800 higher/lower. For the year ended 31 December 2018, if the fair values of the financial assets at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax would have been approximately RMB5,949,300 higher/lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements used in preparing these consolidated financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates for net realisable value of properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties. Net realisable value for properties under development is determined by reference to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion (including land costs). Net realisable value for completed properties held for sale is determined by reference, to management's estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses. Based on management's best estimates, there was no material impairment for properties under development and completed properties held for sale as at 31 December 2019 and 2018.

(b) Fair value of investment properties

The Group assesses the fair value of its completed investment properties and investment properties under construction based on assessments determined by an independent and professional qualified valuer.

The best evidence of fair value of completed investment properties is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flows projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Fair value of investment properties (continued)

Investment properties under construction are carried at fair value when is considered to be reliably measurable. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers certain factors, please refer to Note 2.8.

Management, after consulting independent qualified valuer, considers that the fair value of investment properties under construction as at 31 December 2019 can be measured at a reasonable accurate level. Therefore, these investment properties under construction as at 31 December 2019 were measured at fair value.

The fair value gains from completed investment properties and investment properties under construction are disclosed in Note 15.

(c) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.

(d) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(e) PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its PRC land appreciation taxes calculation and payments with most of local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognised these PRC land appreciation taxes based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the taxation and tax provisions in the years in which such taxes have been finalised with local tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING

The executive directors, as the chief operating decision-makers (“CODM”) of the Group, review the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: property development, property investment, property management and commercial operation. As the CODM considers most of the Group’s consolidated revenue and results are attributable to the market in the PRC and the Group’s consolidated assets are substantially located in the PRC, no geographical information is presented.

Revenue consists of sales of properties, rental income of investment properties, income of property management services and commercial operations. Revenue of the year consists of the following:

| | Year ended 31 December | |
|------------------------------|------------------------|------------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Sale of properties | 6,502,557 | 6,122,384 |
| Property management services | 51,021 | 41,404 |
| Rental income | 28,537 | 19,590 |
| Commercial operations | 8,928 | 8,385 |
| | 6,591,043 | 6,191,763 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

Segment results represent the profit earned by each segment without fair value gains/losses on financial assets, gains/losses on disposal of financial assets, dividend income of financial assets, unallocated operating costs, finance costs – net and income tax expense. Property management services comprise mainly of provision of property management services and rental assistance services. Commercial operation services are mainly operations in youth community projects. The segment results and other segment items for the year ended 31 December 2019 and 2018 are as follows:

| | Property development RMB'000 | Property investment RMB'000 | Property management RMB'000 | Commercial operation RMB'000 | Elimination RMB'000 | Total RMB'000 |
|--|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|------------------------|------------------|
| Year ended 31 December 2019 | | | | | | |
| Segment revenue | | | | | | |
| External revenue | 6,502,557 | 28,537 | 51,021 | 8,928 | – | 6,591,043 |
| Inter-segment revenue | – | 17,186 | 48,990 | – | (66,176) | – |
| | <u>6,502,557</u> | <u>45,723</u> | <u>100,011</u> | <u>8,928</u> | <u>(66,176)</u> | <u>6,591,043</u> |
| Timing of revenue recognition | | | | | | |
| At a point in time | 6,502,557 | – | – | – | – | 6,502,557 |
| Transferred over time | – | – | 100,011 | 8,928 | (48,990) | 59,949 |
| Revenue from other sources | – | 45,723 | – | – | (17,186) | 28,537 |
| | <u>6,502,557</u> | <u>45,723</u> | <u>100,011</u> | <u>8,928</u> | <u>(66,176)</u> | <u>6,591,043</u> |
| Segment results | 1,388,668 | 18,067 | 3,336 | 2,064 | – | 1,412,135 |
| Reconciliation: | | | | | | |
| Unallocated corporate net expenses | | | | | | <u>(99,361)</u> |
| | | | | | | <u>1,312,774</u> |
| Impairment loss of trade and other receivables | | | | | | (15,383) |
| Fair value changes in investment properties | – | 334,267 | – | – | – | 334,267 |
| Share of loss of joint ventures, net of tax | | | | | | (20,629) |
| Finance costs – net | | | | | | <u>(31,179)</u> |
| Consolidated profit before income tax | | | | | | <u>1,579,850</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

| | Property development RMB'000 | Property investment RMB'000 | Property management RMB'000 | Commercial operation RMB'000 | Elimination RMB'000 | Total RMB'000 |
|--|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|------------------------|------------------|
| Other segment information: | | | | | | |
| Depreciation and amortisation | (2,685) | (260) | (175) | (1,000) | - | (4,120) |
| Additions to properties held for/ under development | 5,131,890 | - | - | - | - | 5,131,890 |
| Capital expenditure | 6,245 | - | 451 | - | - | 6,696 |
| As at 31 December 2019 | | | | | | |
| Assets and liabilities | | | | | | |
| Assets | | | | | | |
| Reportable segment assets | 16,191,429 | 3,615,680 | 40,634 | 3,636 | - | 19,851,379 |
| Reconciliation: | | | | | | |
| Interest in joint ventures | | | | | | 46,295 |
| Financial assets at fair value through profit or loss | | | | | | 329,828 |
| Deferred tax assets | | | | | | 84,311 |
| Cash and cash equivalents | | | | | | 1,572,618 |
| Unallocated corporate assets | | | | | | |
| - Property, plant and equipment | | | | | | 113,944 |
| - Other receivables and prepayments | | | | | | 361,204 |
| - Restricted and pledged deposits | | | | | | 12,000 |
| - Other corporate assets | | | | | | 480,186 |
| Consolidated total assets | | | | | | 22,851,765 |
| Liabilities | | | | | | |
| Reportable segment liabilities | 12,206,407 | 10,343 | 41,091 | 7,829 | - | 12,265,670 |
| Reconciliation: | | | | | | |
| Deferred tax liabilities | | | | | | 585,051 |
| Other liabilities | | | | | | 670 |
| Income tax payable | | | | | | 662,266 |
| Unallocated corporate liabilities | | | | | | |
| - Bank and other borrowings | | | | | | 4,564,064 |
| - Trade and other payables | | | | | | 941,532 |
| - Other corporate liabilities | | | | | | 82,466 |
| Consolidated total liabilities | | | | | | 19,101,719 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

| | Property development RMB'000 | Property investment RMB'000 | Property management RMB'000 | Commercial operation RMB'000 | Elimination RMB'000 | Total RMB'000 |
|--|------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|------------------------|------------------|
| Year ended 31 December 2018 | | | | | | |
| Segment revenue | | | | | | |
| External revenue | 6,122,384 | 19,590 | 41,404 | 8,385 | – | 6,191,763 |
| Inter-segment revenue | – | 8,375 | 19,776 | – | (28,151) | – |
| | <u>6,122,384</u> | <u>27,965</u> | <u>61,180</u> | <u>8,385</u> | <u>(28,151)</u> | <u>6,191,763</u> |
| Timing of revenue recognition | | | | | | |
| At a point in time | 6,122,384 | – | – | – | – | 6,122,384 |
| Transferred over time | – | – | 61,180 | 8,385 | (19,776) | 49,789 |
| Revenue from other sources | – | 27,965 | – | – | (8,375) | 19,590 |
| | <u>6,122,384</u> | <u>27,965</u> | <u>61,180</u> | <u>8,385</u> | <u>(28,151)</u> | <u>6,191,763</u> |
| Total | 6,122,384 | 27,965 | 61,180 | 8,385 | (28,151) | 6,191,763 |
| Segment results | 1,455,024 | 7,479 | (13,220) | (2,791) | – | 1,446,492 |
| Reconciliation: | | | | | | |
| Unallocated corporate net expenses | | | | | | <u>52,676</u> |
| | | | | | | <u>1,499,168</u> |
| Impairment loss of trade and other receivables | | | | | | (6,245) |
| Fair value changes in investment properties | – | 269,702 | – | – | – | 269,702 |
| Share of loss of joint ventures, net of tax | | | | | | (8,101) |
| Finance costs – net | | | | | | <u>(110,422)</u> |
| Consolidated profit before income tax | | | | | | <u>1,644,102</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

| | Property development <i>RMB'000</i> | Property investment <i>RMB'000</i> | Property management <i>RMB'000</i> | Commercial operation <i>RMB'000</i> | Elimination <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---|--|--|---|-------------------------------|-------------------------|
| Other segment information: | | | | | | |
| Depreciation and amortisation | (2,103) | (481) | (1,836) | (952) | – | (5,372) |
| Additions to properties held for/under development | 2,510,449 | – | – | – | – | 2,510,449 |
| Capital expenditure | 1,337 | – | 561 | 108 | – | 2,006 |
| As at 31 December 2018 | | | | | | |
| Assets and liabilities | | | | | | |
| <u>Assets</u> | | | | | | |
| Reportable segment assets | 14,030,468 | 3,784,592 | 47,941 | 13,001 | – | 17,876,002 |
| Reconciliation: | | | | | | |
| Interest in joint ventures | | | | | | 15,899 |
| Financial assets at fair value through profit or loss | | | | | | 10,000 |
| Derivative financial assets | | | | | | 60,388 |
| Deferred tax assets | | | | | | 25,649 |
| Cash and cash equivalents | | | | | | 2,410,063 |
| Unallocated corporate assets | | | | | | |
| – Property, plant and equipment | | | | | | 221,398 |
| – Restricted and pledged deposits | | | | | | 45,410 |
| – Other corporate assets | | | | | | 572,180 |
| Consolidated total assets | | | | | | 21,236,989 |
| <u>Liabilities</u> | | | | | | |
| Reportable segment liabilities | 11,544,400 | 59,487 | 26,786 | 16,132 | – | 11,646,805 |
| Reconciliation: | | | | | | |
| Deferred tax liabilities | | | | | | 594,856 |
| Income tax payable | | | | | | 251,998 |
| Derivative financial liabilities | | | | | | 10,895 |
| Unallocated corporate liabilities | | | | | | |
| – Bank and other borrowings | | | | | | 5,312,209 |
| – Trade and other payables | | | | | | 105,817 |
| – Other corporate liabilities | | | | | | 10,850 |
| Consolidated total liabilities | | | | | | 17,933,430 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 SEGMENT REPORTING (continued)

Revenue from a customer contributing over 10% of total revenue of the Group is as follows:

| | Year ended 31 December | |
|------------|------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Customer A | 1,042,957 | – |

6 OTHER GAINS – NET

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Gain from bargain purchase | – | 81,214 |
| Interest income from financial assets at FVTPL | 7,021 | – |
| Others | 2,501 | 5,882 |
| | 9,522 | 87,096 |

7 FINANCE COSTS – NET

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Interest expense for bank and other borrowings | 643,448 | 559,055 |
| Less: amount capitalised | (633,226) | (505,135) |
| | 10,222 | 53,920 |
| Foreign exchange losses on financing activities – net | 38,903 | 74,171 |
| | 49,125 | 128,091 |
| Finance income: | | |
| Bank interest income | 13,885 | 11,230 |
| Others | 4,061 | 6,439 |
| | 17,946 | 17,669 |
| Finance costs – net | 31,179 | 110,422 |

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 9.6% (2018: 9.1%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8 EXPENSES BY NATURE

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Cost of properties sold – including construction cost, land cost and interest cost | 4,643,818 | 4,283,215 |
| Advertising costs | 229,433 | 142,925 |
| Staff costs (including directors' emoluments) | 196,048 | 203,200 |
| Other direct costs | 36,517 | 22,337 |
| Depreciation and amortisation | 31,434 | 22,278 |
| Taxes and levies | 15,083 | 13,686 |
| Auditor's remunerations | 4,275 | 3,309 |
| – audit services | 2,880 | 2,131 |
| – non-audit services | 1,395 | 1,178 |

The short-term leases fees of RMB1,780,000 are recognised as expenses for the year ended 31 December 2019.

9 STAFF COSTS

| | Note | Year ended 31 December | |
|--|------|------------------------|----------|
| | | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| Staff costs (including directors' emoluments) comprise: | | | |
| Basic salaries | | 151,914 | 137,927 |
| Equity-settled share-based payment expenses | 33 | 30,848 | 5,709 |
| Bonuses and other benefits | | 42,872 | 87,913 |
| Contributions to defined contribution pension plans | (a) | 10,776 | 8,552 |
| | | 236,410 | 240,101 |
| Less: Amount capitalised as properties under development | | (40,362) | (36,901) |
| Staff costs charged to profit or loss | | 196,048 | 203,200 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9 STAFF COSTS (continued)

(a) Pensions – defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of certain percentage of eligible employees' relevant aggregate income, with a maximum cap per employee per month.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group during the year, three (2018: two) are directors whose emoluments are included in Note 39. The emoluments of the remaining two (2018: three) are as follows:

| | Year ended 31 December | |
|---|------------------------|---------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Basic salaries and other benefits | 4,129 | 5,320 |
| Bonuses | 1,539 | 6,502 |
| Equity-settled share-based payment expenses | 2,801 | 1,347 |
| Contributions to defined contribution pension plans | 88 | 165 |
| | <u>8,557</u> | <u>13,334</u> |

Their emoluments are within the following bands:

| | Number of individuals | |
|--------------------------------|------------------------|------|
| | Year ended 31 December | |
| | 2019 | 2018 |
| HK\$3,500,001 to HK\$4,000,000 | – | 1 |
| HK\$4,500,001 to HK\$5,000,000 | 2 | 1 |
| HK\$6,500,001 to HK\$7,000,000 | – | 1 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 INCOME TAX EXPENSE

The amount of taxation in the consolidated statement comprehensive income represents:

| | Year ended 31 December | |
|----------------------------|------------------------|----------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| PRC corporate income tax | 427,675 | 453,862 |
| PRC land appreciation tax | 365,160 | 373,129 |
| | <u>792,835</u> | <u>826,991</u> |
| Deferred tax | | |
| – PRC corporate income tax | (44,967) | (3,645) |
| | <u>(44,967)</u> | <u>(3,645)</u> |
| Total income tax expenses | <u>747,868</u> | <u>823,346</u> |

PRC corporate income tax

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. The corporate income tax rate applicable to the Group's entities located in Mainland China is 25%.

PRC withholding income tax ("WHT")

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The relevant overseas holding companies have successfully obtained endorsement from the PRC tax bureau to enjoy the treaty benefit of 5% withholding income tax rate on dividends received from the PRC subsidiaries of the Group. Accordingly, withholding income tax has been provided at 5% of the dividends to be distributed by the PRC subsidiaries of the Group for the year ended 31 December 2019 (2018: 5%).

PRC land appreciation tax ("LAT")

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT effective 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective on 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items. The Group has made provision of LAT for sales of properties according to the aforementioned progressive rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 INCOME TAX EXPENSE (continued)

Hong Kong profits tax

No provision for Hong Kong profits tax has been made in these consolidated financial statements as the Company and the Group did not have assessable profit in Hong Kong for the year. The profit of the Group's entities in Hong Kong is mainly derived from dividend income, which is not subject to Hong Kong profits tax.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

| | Year ended 31 December | |
|--|------------------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Profit before income tax | 1,579,850 | 1,644,102 |
| Calculated at applicable corporate income tax rate | 410,946 | 474,755 |
| Tax effect of tax losses not recognised as deferred income tax asset | 41,911 | 32,318 |
| Tax effect of expenses not deductible for tax purposes | 20,976 | 21,466 |
| Adjustments on income tax for prior years which affect current profit or loss | 165 | (1,515) |
| PRC land appreciation tax deductible for PRC corporate income tax purposes | (91,290) | (93,282) |
| | 382,708 | 433,742 |
| Tax effect on withholding tax arising on distributable profits of the PRC subsidiaries | – | 16,475 |
| PRC land appreciation tax | 365,160 | 373,129 |
| | 747,868 | 823,346 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11 EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2019 and 2018 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments resulting to new shares issued due to the exercises of share options during the years.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2019 and 2018 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect of the exercise of the Company's outstanding share option under the 2005 and 2015 Scheme, and assuming the exercise is made at no consideration at the beginning of the periods.

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Profit for the purposes of basic and diluted earnings per share | 792,258 | 751,315 |
| | Number of shares | |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 7,772,357 | 7,892,360 |
| Effect of dilutive potential ordinary shares from share options (2005 Scheme) | 33(a) 14,655 | 52,373 |
| Effect of dilutive potential ordinary shares from share options (2015 Scheme) | 33(b) 73,752 | 216,482 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 7,860,764 | 8,161,215 |
| Basic | RMB0.102 | RMB0.095 |
| Diluted | RMB0.101 | RMB0.092 |

12 DIVIDENDS

| | Year ended 31 December | |
|---|------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Final dividend proposed after the end of the year of HK\$0.023 (approximately RMB0.021) per ordinary share (2018: HK\$0.023 approximately RMB0.020) | 160,000 | 160,280 |

At the meeting held on 20 March 2020, the directors proposed a final dividend of HK\$0.023 (approximately RMB0.021) (2018: HK\$0.023 approximately RMB0.020) per ordinary share of the Company for the year ended 31 December 2019. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2019, but will be reflected as an appropriation for the year ending 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 PROPERTY, PLANT AND EQUIPMENT

| | Buildings <i>RMB'000</i> | Furniture, fixtures and equipment <i>RMB'000</i> | Motor vehicles <i>RMB'000</i> | Assets under construction <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|-----------------------------|---|-------------------------------------|---|-------------------------|
| Year ended 31 December 2019 | | | | | |
| Net book amount at | | | | | |
| 31 December 2018 | 267,093 | 9,402 | 4,837 | 412,527 | 693,859 |
| Changed in accounting policies (Note 2.2) | (105,675) | – | – | (150,029) | (255,704) |
| Opening net book amount | 161,418 | 9,402 | 4,837 | 262,498 | 438,155 |
| Additions | – | 5,334 | 1,659 | 26,366 | 33,359 |
| Acquisitions of subsidiaries | – | 66 | 30 | – | 96 |
| Written off/disposals | – | (3) | – | – | (3) |
| Depreciation | (14,362) | (3,416) | (1,576) | – | (19,354) |
| Exchange differences | 1,812 | 22 | 21 | – | 1,855 |
| Closing net book amount | 148,868 | 11,405 | 4,971 | 288,864 | 454,108 |
| At 31 December 2019 | | | | | |
| Cost | 213,452 | 30,365 | 16,058 | 288,864 | 548,739 |
| Accumulated depreciation | (64,585) | (18,959) | (11,087) | – | (94,631) |
| Net book amount | 148,867 | 11,406 | 4,971 | 288,864 | 454,108 |
| Year ended 31 December 2018 | | | | | |
| Opening net book amount | 226,028 | 9,298 | 4,171 | – | 239,497 |
| Additions | – | 2,023 | 1,199 | 15,283 | 18,505 |
| Acquisitions of subsidiaries | 11,669 | 1,504 | 952 | 397,244 | 411,369 |
| Transfer from investment properties (Note 15) | 42,409 | – | – | – | 42,409 |
| Depreciation | (17,317) | (3,461) | (1,578) | – | (22,356) |
| Exchange differences | 4,304 | 38 | 93 | – | 4,435 |
| Closing net book amount | 267,093 | 9,402 | 4,837 | 412,527 | 693,859 |
| At 31 December 2018 | | | | | |
| Cost | 333,572 | 24,433 | 13,987 | 412,527 | 784,519 |
| Accumulated depreciation | (66,479) | (15,031) | (9,150) | – | (90,660) |
| Net book amount | 267,093 | 9,402 | 4,837 | 412,527 | 693,859 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charges were included in the following categories in the consolidated statement of comprehensive income:

| | Year ended 31 December | |
|-----------------------------------|------------------------|---------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Property under development | 31 | 78 |
| Administrative and other expenses | 19,323 | 22,278 |
| | <u>19,354</u> | <u>22,356</u> |

As at 31 December 2019, property and equipment with a net book amount of RMB113,944,000 (2018: RMB221,398,000) were pledged as collateral for the Group's borrowings (Note 22(k)).

Borrowing costs of RMB24,811,000 (2018: Nil) have been capitalised in assets in construction for the year ended 31 December 2019.

The capitalisation rate of borrowings for the year ended 31 December 2019 was 9.6% (2018: Nil).

14 RIGHT-OF-USE ASSETS

| | Land use rights |
|---|-----------------|
| | RMB'000 |
| At 31 December 2018 | N/A |
| Changed in accounting policies (Note 2.2) | <u>255,704</u> |
| At 1 January 2019 | 255,704 |
| Depreciation | <u>(12,111)</u> |
| At 31 December 2019 | <u>243,593</u> |

Right-of-use assets comprise cost of acquiring rights to use certain land, which are all located in the PRC, mainly for self-use buildings over fixed periods.

As at 31 December 2019, right-of-use asset with a net book amount of RMB93,093,000 were pledged as collateral for the Group's borrowings (Note 22(k)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES

| | Note | Completed investment properties RMB'000 | Investment properties under construction RMB'000 | Total RMB'000 |
|--|------|--|--|------------------|
| Year ended 31 December 2019 | | | | |
| At 1 January 2019 | | 1,692,157 | 1,215,000 | 2,907,157 |
| Transfer from properties under development | (a) | – | 250,976 | 250,976 |
| Transfer from properties held for sale | | 16,950 | – | 16,950 |
| Fair value (losses)/gains – net | (a) | (23,757) | 358,024 | 334,267 |
| Exchange differences | | 2,941 | – | 2,941 |
| At 31 December 2019 | | 1,688,291 | 1,824,000 | 3,512,291 |
| Year ended 31 December 2018 | | | | |
| At 1 January 2018 | | 1,094,400 | – | 1,094,400 |
| Additions | | 51,690 | – | 51,690 |
| Acquired through acquisition of a subsidiary | | – | 1,163,000 | 1,163,000 |
| Transfer to property, plant and equipment | | (42,409) | – | (42,409) |
| Transfer from properties under development | | 316,702 | 48,508 | 365,210 |
| Fair value gains – net | | 266,210 | 3,492 | 269,702 |
| Exchange differences | | 5,564 | – | 5,564 |
| At 31 December 2018 | | 1,692,157 | 1,215,000 | 2,907,157 |

- (a) In December 2019, certain commercial units are transferred from properties under development due to a change in use. At the date of transfer, carrying amount of RMB250,976,000 of the properties was revalued at RMB527,000,000 by an independent valuer. As a result, the Group recognised RMB358,024,000 of fair value gain in the profit or loss for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

The following amounts have been recognised in the consolidated statement of comprehensive income:

| | 31 December | |
|---|----------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Rental income (Note 5) | 28,537 | 19,590 |
| Direct operating expenses arising from investment properties that generate rental income | (4,043) | (4,036) |
| Direct operating expenses arising from investment properties that do not generate rental income | (684) | (235) |

Investment properties as at 31 December 2019 are held in the PRC on leases between 10 to 50 years (2018: 10 to 50 years).

As at 31 December 2019, investment properties of RMB2,985,291,000 (2018: RMB1,867,157,000) were pledged as collateral for the Group's borrowings (Note 22(k)).

The fair value of the investment properties are expected to be realised through rental income. The Group has measured the deferred tax relating to the temporary differences of these investment properties using the tax rates and the tax bases that are consistent with the expected manner of recovery of these investment properties.

(i) Fair value hierarchy

An independent valuation of the Group's certain completed investment properties and investment properties under construction was performed by the independent and professionally qualified valuer, to determine the fair value of the investment properties as at 31 December 2019. The revaluation gains or losses are included in 'Fair value changes in investment properties in the statement of comprehensive income.

As at 31 December 2019, as certain significant inputs used in the determination of fair value of investment properties are arrived at by reference to certain significant unobservable market data, the fair value of all investment properties of the Group are included in level 3 of the fair value measurement hierarchy.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. No transfers in or out of fair value hierarchy levels during the year.

(ii) Valuation processes of the Group

The Group's investment properties were valued at 31 December 2019 by independent professionally qualified valuer who holds a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(ii) Valuation processes of the Group (continued)

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

(iii) Valuation techniques

Completed investment properties comprise of commercial properties and carparks. For commercial properties, fair values are generally derived using the term and reversionary method and direct comparison method. The term and reversionary method is based on the tenancy agreements as at the respective valuation dates. The rental income derived within the tenancy agreements are discounted by adopting term yields and the potential reversionary income are discounted by adopting appropriate reversionary yields for the period beyond the rental period in the tenancy agreements. Potential reversionary income and the reversionary yields are derived from analysis of prevailing market rents and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

For carparks, valuations are determined using the direct comparison methods. The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. Given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the selling price such as property size, locations.

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

The Group has also used the sale comparison approach by making reference to the sales transactions or asking price evidences of comparable properties as available in the market to cross check the valuation result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

There were no changes to the valuation techniques during the year.

| Property Category | Fair value at 31 December 2019 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|--|--|------------------------------|---------------------------------------|------------------------------|---|
| Completed investment properties in Hong Kong | 125,191 | Direct Comparison Method | Market Unit Price (RMB/square meter) | 198,000-364,000 | The higher the unit price, the higher the fair value |
| Completed investment properties in PRC | 1,027,100 | Term and reversionary method | Term yields | 2.0%-4.25% | The higher the capitalisation rate, the lower the fair value |
| | | | Reversionary yields | 3.0%-4.75% | The higher the capitalisation rate, the lower the fair value. |
| | | | Market rents (RMB/square meter/month) | 125-262 | The higher the market rent, the higher the fair value |
| | | | Direct comparison | Market price (RMB/per sq m) | 18,802-54,400 |
| Car parks | 536,000 | Direct comparison | Market price (RMB/per lot) | 720,000 | The higher the market price, the higher the fair value |
| | | | Term and reversionary method | Term yields | 1.0% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

| Property Category | Fair value at 31 December 2019 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|---|--|----------------------|---|------------------------------|---|
| | | | Reversionary yields | 1.5% | The higher the reversionary yields, the lower the fair value |
| | | | Market rents (RMB/lot/month) | 1,810 | The higher the market rent, the higher the fair value |
| Investment properties under construction in PRC | 1,824,000 | Residual method | Market rents (RMB/square meter/month) | 56-185 | The higher the market rent, the higher the fair value |
| | | | Reversionary yields | 3.5%-4.5% | The higher the reversionary yields, the lower the fair value |
| | | | Budgeted construction costs to be incurred (RMB/sq.m) | 3,600-4,221 | The higher the budgeted construction costs to be incurred, the lower the fair value |
| | | | Developer's profit (%) | 5.0%-25.0% | The higher the developer's profit, the lower the fair value |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

| | Property Category | Fair value at 31 December 2018 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value | |
|--|-----------------------|---|------------------------------|---------------------------------------|---|--|--|
| Completed investment properties in Hong Kong | Commercial properties | 131,467 | Direct Comparison Method | Market Unit Price (RMB/square meter) | 253,788-380,142 | The higher the unit price, the higher the fair value | |
| Completed investment properties in PRC | Commercial properties | 1,040,690 | Term and reversionary method | Term yields | 2.0%-4.5% | The higher the term yields, the lower the fair value | |
| | | | | Reversionary yields | 3.0%-5.0% | The higher the reversionary yields, the lower the fair value | |
| | | | | Market rents (RMB/square meter/month) | 132-265 | The higher the market rents, the higher the fair value | |
| | Car parks | 520,000 | Direct comparison | Market price (RMB/per lot) | 700,000 | The higher the market price, the higher the fair value | |
| | | | | Term and reversionary method | Term yields | 1.0% | The higher the term yields, the lower the fair value |
| | | | | Reversionary yields | 1.5% | The higher the reversionary yields, the lower the fair value | |
| | | | Market rents (RMB/lot/month) | 1,500-1,950 | The higher the market rent, the higher the fair value | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INVESTMENT PROPERTIES (continued)

(iii) Valuation techniques (continued)

| Property Category | | Fair value at 31 December 2018 RMB'000 | Valuation techniques | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|--|--------------------------|--|-------------------------|--|------------------------------------|--|
| Investment properties under construction in PRC | Commercial properties | 1,215,000 | Residual method | Market rents (RMB/ square meter/ month) | 58 | The higher the market rents, the higher the fair value |
| | | | | Reversionary yields | 4.0% | The higher the reversionary yields, the lower the fair value |
| | | | | Budgeted construction costs to be incurred (RMB/sq.m) | 3,600 | The higher the budgeted construction costs to be incurred, the lower the fair value |
| | | | | Developer's profit (%) | 20.0% | The higher the developer's profit, the lower the fair value |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)

| | Note | 31 December | |
|---|------|-------------|---------|
| | | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| Financial assets at fair value through profit or loss | | | |
| At 1 January | | 10,000 | 10,000 |
| Additions | | 315,434 | – |
| Fair value changes | | 4,394 | – |
| At 31 December | | 329,828 | 10,000 |
| Classification: | | | |
| – Related parties | (a) | 10,000 | 10,000 |
| – Investment funds | (b) | 319,828 | – |
| | | 329,828 | 10,000 |

Notes:

- (a) This is the investment into a fund incorporated in the PRC managed by Shenzhen Qianhai Yitong Fund Management Company Limited* (深圳前海易通基金管理有限公司) (“Qianhai Yitong”), which is wholly-owned by the Company’s controlling shareholder, Mr. Yu Pan. As at 31 December 2019 and 2018, the cost of the investment was RMB10,000,000, and the Group determined the fair value on the basis of the report provided by the Qianhai Yitong. Qianhai Yitong executes unified operation and investment management, while the Group share investment risks as well as potential income in proportion to their contributions. The directors of the Company considered that the fair value of the debt investment approximated the carrying value as at 31 December 2019 and 2018, and categorised within level 3 of the fair value hierarchy.
- (b) The investments mainly represent investments in various investment funds managed by HK fund managing companies. The fair values of these investments were determined mainly based on valuation report provided by managing companies, making reference to quoted market price. The fair value measurement is categorised within level 2 of the fair value hierarchy.

* English name is for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INTEREST IN JOINT VENTURES

There was no joint venture of the Group as at 31 December 2019 which, in the opinion of the executive directors, are material to the Group. For those individually immaterial joint ventures that are accounted for using the equity method, amounts recognised in the consolidated balance sheet and the profit or loss are set out as below:

| | 31 December | |
|-----------------------|-------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| At 1 January | 15,899 | – |
| Additions | 51,025 | 24,000 |
| Share of losses – net | (20,629) | (8,101) |
| At 31 December | 46,295 | 15,899 |

There is no contingent liabilities nor commitment relating to the Group's interests in the joint ventures.

Details of the Group's joint ventures as at 31 December, are as follows:

| Name of joint ventures | Place of incorporation/ establishment/ operation | Percentage of equity interest held by the Company | | Principal activities |
|--|--|---|------|---------------------------------|
| | | 2019 | 2018 | |
| 廣西眾擎易舉投資有限公司 (Guangxi Zhongqing Yiju Investment Company Limited)* | PRC | 40% | 40% | Property development in the PRC |
| 貴陽海洋房地產開發有限公司 (Guiyang Haiyang Property Development Company Limited)* | PRC | 51% | N/A | Property development in the PRC |

* English name is for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INTEREST IN JOINT VENTURES (continued)

Summarised financial information in respect of the Group's joint ventures are set out below:

Guangxi Zhongqing Yiju Investment Company Limited

| | 31 December | |
|--|------------------------|------------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Non-current assets | 142 | 153 |
| Cash and cash equivalents | 353,224 | 67,700 |
| Properties under development | 2,771,533 | 1,821,382 |
| Other current assets | 2,744,642 | 534,178 |
| Total assets | 5,869,541 | 2,423,413 |
| Bank borrowings | 510,849 | 1,180,028 |
| Other current liabilities | 5,360,640 | 1,203,638 |
| Total liabilities | 5,871,489 | 2,383,666 |
| Net assets | (1,948) | 39,747 |
| The Group's share in % | 40% | 40% |
| Share of net assets | (779) | 15,899 |
| | Year ended 31 December | |
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Expenses | 42,341 | 20,851 |
| Others | (645) | (598) |
| Loss for the year | 41,696 | 20,253 |
| Total comprehensive loss for the year | 41,696 | 20,253 |
| The Group's share in % | 40% | 40% |
| Share of loss | 16,678 | 8,101 |

As at 31 December 2019, an amount of approximately RMB941,532,000 (2018: RMB55,817,000) was advanced from Guangxi Zhongqing Yiju Investment Company Limited. The amount is unsecured, interest-free and repayable on demand (Note 38(e)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INTEREST IN JOINT VENTURES (continued)

Guiyang Haiyang Property Development Company Limited

| | 2019 RMB'000 |
|---------------------------------------|--|
| Non-current assets | 1,158 |
| Cash and cash equivalents | 17,377 |
| Properties under development | 1,346,033 |
| Other current assets | 107,877 |
| Total assets | 1,472,445 |
| Non-current liabilities | 8,992 |
| Bank borrowings | 132,719 |
| Other current liabilities | 1,238,432 |
| Total liabilities | 1,380,143 |
| Net assets | 92,302 |
| The Group's share in % | 51% |
| Share of net assets | 47,074 |
| | Year ended 31 December 2019 RMB'000 |
| Expenses | 5,541 |
| Others | 2,206 |
| Loss for the year | 7,747 |
| Total comprehensive loss for the year | 7,747 |
| The Group's share in % | 51% |
| Share of loss | 3,951 |

* English name is for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18 PROPERTIES UNDER DEVELOPMENT

Properties under development in the PRC are as follows:

| | 31 December | |
|---------------------------------------|-------------------|------------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Properties under development include: | | |
| – Construction costs | 4,439,414 | 3,180,117 |
| – Interests capitalised | 600,661 | 505,135 |
| – Land use rights | 5,646,426 | 3,869,075 |
| | 10,686,501 | 7,554,327 |

The properties under development are all located in the PRC and expected to be completed within an operating cycle. The relevant land use rights in the PRC are on leases of 40 to 70 years.

As at 31 December 2019, properties under development of approximately RMB4,872,716,000 (2018: RMB6,370,886,000) were pledged as collateral for the Group's borrowings (Note 22(k)).

The capitalisation rate of borrowings for the year ended 31 December 2019 was 9.6% (2018: 9.1%).

19 PROPERTIES HELD FOR SALE

| | 31 December | |
|------------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Completed properties held for sale | 2,307,057 | 4,144,040 |

All completed properties held for sale as at 31 December 2019 were located in the PRC.

As at 31 December 2019, completed properties held for sale of approximately RMB440,000,000 (2018: Nil) were pledged as collateral for the Group's borrowings (Note 22(k)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20 TRADE RECEIVABLES

| | 31 December | |
|----------------------|----------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 458,547 | 201,354 |
| Less: loss allowance | (18,363) | (4,914) |
| | <u>440,184</u> | <u>196,440</u> |

- (a) The majority of the Group's sales are derived from sales of properties and rental income. Proceeds in respect of sales of properties and rental income are to be received in accordance with the terms of related sales and purchase agreements and rental contracts. All trade receivables are due from independent third parties.

The ageing analysis of trade receivables as at the respective balance sheet date is as follows:

| | 31 December | |
|----------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 30 days | 112,253 | 804 |
| Over 30 days and within 90 days | 3,277 | 175,294 |
| Over 90 days and within 365 days | 322,337 | 22,366 |
| Over 365 days | 20,680 | 2,890 |
| | <u>458,547</u> | <u>201,354</u> |

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2019, a provision of RMB18,363,000 was made against the gross amounts of trade receivables (2018: RMB4,914,000).

The closing loss allowance for trade receivables reconcile to the opening loss allowance as follows:

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| At beginning of year | 4,914 | – |
| Impact of initial application of HKFRS 9 | – | 90 |
| Provision of impairment of trade receivables during the year | 13,449 | 4,824 |
| At 31 December | <u>18,363</u> | <u>4,914</u> |

- (b) As at 31 December 2019 and 2018, the fair value of trade receivables approximated their carrying amounts. The maximum exposure to credit risk of the trade receivables at the reporting date was the carrying value of each class of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21 OTHER RECEIVABLES AND PREPAYMENTS

| | Note | 31 December | |
|--|------|------------------|------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Other receivables: | | | |
| Sale proceeds kept by a monitoring governmental authority | (a) | 458,768 | 391,453 |
| Loan receivable | (b) | 361,204 | – |
| Maintenance funds paid on behalf of properties owners | | 53,858 | 55,459 |
| Tender deposit in development project | | 40,000 | 40,800 |
| Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary | | 24,900 | 24,900 |
| Loan to a non-controlling shareholder of a subsidiary | (c) | 23,498 | 52,900 |
| Others | | 181,017 | 274,759 |
| | | <u>1,143,245</u> | <u>840,271</u> |
| Less: loss allowance | (d) | <u>(6,910)</u> | <u>(4,976)</u> |
| Subtotal | | <u>1,136,335</u> | <u>835,295</u> |
| Prepayment: | | | |
| Prepayment for proposed projects | (e) | 923,106 | 994,928 |
| Prepaid taxes and surcharges | | 414,788 | 443,641 |
| Prepaid construction costs | | 211,839 | 187,975 |
| | | <u>1,549,733</u> | <u>1,626,544</u> |
| Total | | <u>2,686,068</u> | <u>2,461,839</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21 OTHER RECEIVABLES AND PREPAYMENTS (continued)

Notes:

- (a) The balance represents pre-sales proceeds of two projects held by a governmental authority in Xuzhou. This governmental authority is responsible for the monitoring of the usage of funds which were deposited in a regulated bank account in the name of the government authority when the sales and purchase agreements have been entered into between the Group and the customers and sale proceeds received. The Group has a right to use the pre-sale proceeds kept in the bank account to pay construction costs of the related development project and the pre-sales proceeds will be put for free use by the Group upon completion of the relevant project.
- (b) The balance is a loan to an independent third party, plus interests charged at an interest rate of 15% per annum and repayable within one year. Management perceives no credit loss on the loan.
- (c) As at 31 December 2019 and the balance is unsecured, plus interests charged at an interest rate 15% per annum and repayable within one year. In the opinion of the management of the Company, ECL on the balance was provided. As at 31 December 2018, the balance is unsecured, interest bearing and paid in 2019.
- (d) The movements of impairment loss on other receivables of the Group are as follows:

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| At beginning of year | 4,976 | – |
| Impact of initial application of HKFRS 9 | – | 3,555 |
| Provision of other receivables during the year | 1,934 | 1,421 |
| At 31 December | 6,910 | 4,976 |

- (e) Prepayment costs were made for start-off costs on two old district remodeling projects in Guangzhou and several proposed projects in Guangzhou, Xuzhou, Zhuhai and Kunming. For the remodeling projects in Guangzhou, the management is currently conducting works as customarily required in the preliminary stage of a typical old district remodeling project. In view of the steady progress since project start-off, the management anticipates that the demolition contracts will be entered into by subsidiaries of the Group designated to act as the project companies in near future and the district governments will put the lands for auctions with pre-requisite conditions made exclusively to the benefit of the project companies.
- (f) All balances of other receivables and prepayments are from independent third parties. The carrying amounts of other receivables approximate their fair values. The maximum exposure to credit risk of the other receivables at the reporting date was the carrying value of each class of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

| | Notes | 31 December | |
|---|-------|------------------|------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Borrowings included in non-current liabilities: | | | |
| Bank borrowings | (a) | 1,277,390 | 1,627,588 |
| Secured notes | (b) | 2,005,986 | – |
| Unsecured bonds | (c) | 1,485,360 | 1,646,900 |
| Other borrowings | (d) | 1,491,612 | 3,077,210 |
| – secured | | 1,491,612 | 3,042,094 |
| – unsecured | | – | 35,116 |
| Less: current portion of non-current borrowings | | (1,929,664) | (2,817,188) |
| | | 4,330,684 | 3,534,510 |
| Borrowings included in current liabilities: | | | |
| Current portion of long-term borrowings | | 1,929,664 | 2,817,188 |
| | | 1,929,664 | 2,817,188 |
| Total borrowings | | 6,260,348 | 6,351,698 |
| Derivative financial asset included in non-current assets | (e) | – | (60,388) |
| Derivative financial liabilities included in non-current liabilities: | | – | 8,757 |
| Derivative financial liabilities included in current liabilities | (e) | 670 | 2,138 |
| | | 670 | 10,895 |

(a) As at 31 December 2019, the bank borrowings carry interest at variable rates ranging from 2.50% to 5.94% per annum (2018: 2.50% to 8.0% per annum). The bank borrowings are secured by mortgages of ownership titles of properties held of self use, properties under development and investment properties with or without corporate guarantee provided by the Company or personal guarantee provided by Mr. Yu.

(b) During the year, the Company issued secured notes in aggregate principal sum of US\$274,000,000 (RMB1,911,479,000) to institutional investors. The notes bear interest at 13.0% per annum, payable semi-annually in arrears on 8 January and 8 July of each year, and will be mature on 8 July 2022. The notes are secured by a pledge of the entire equity interest in Winprofit Investments Limited, a subsidiary of the Group, for which the noteholders will be entitled to a first priority lien on the security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(c) The details of the unsecured bonds are as follows:

| | 2019/2020 Bonds HK\$'000 | 2021 Bonds(A) HK\$'000 | 2021 Bonds(B) HK\$'000 | 2024 Bonds HK\$'000 | 2025 Bonds HK\$'000 | 2026 Bonds HK\$'000 | 2027 Bonds HK\$'000 | 2031 Bonds HK\$'000 | 2032 Bonds HK\$'000 | 2033 Bonds HK\$'000 | 2034 Bonds HK\$'000 |
|---|--------------------------------|------------------------------|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Nominal value | 200,000 | 249,000 | 147,400 | 290,000 | 80,000 | 100,000 | 10,000 | 570,000 | 960,000 | 1,300,000 | 1,880,000 |
| Nominal value | RMB\$'000 179,160 | RMB\$'000 223,054 | RMB\$'000 132,041 | RMB\$'000 259,782 | RMB\$'000 71,664 | RMB\$'000 89,580 | RMB\$'000 8,958 | RMB\$'000 510,606 | RMB\$'000 859,968 | RMB\$'000 1,164,540 | RMB\$'000 1,684,104 |
| Issue date | 2017 | 2018 | 2019 | 2016 /2018 | 2014 /2015 | 2015 /2016 | 2016 | 2016 /2017 /2019 | 2014 /2015 | 2015 /2016 | 2016 /2017 |
| Coupon rate | 5.00% | 6.00% | 9.00% | 7.60% | 7.60% | 7.60% | 7.60% | 8.10% | 8.10% | 8.10% | 8.07%- 8.10% |
| Maturity date | 2019/2020 | 2021 | 2021 | 2024 | 2025 | 2026 | 2027 | 2031 | 2032 | 2033 | 2034 |
| Transaction costs | (25,978) | (31,228) | (7,922) | (7,793) | (2,150) | (2,687) | (269) | (15,318) | (25,799) | (34,936) | (50,523) |
| Prepaid interest | - | - | - | (163,686) | (44,035) | (56,851) | (5,803) | (415,147) | (696,045) | (952,261) | (1,371,610) |
| Cash received | 153,182 | 191,827 | 124,118 | 88,303 | 25,479 | 30,041 | 2,886 | 80,140 | 138,124 | 177,343 | 261,971 |
| Effective interest rates | 13.69%- 14.07% | 11.58% | 12.42% | 11.62%- 12.38% | 11.66%- 11.99% | 11.94%- 12.08% | 12.19% | 11.55%- 11.78% | 11.55%- 11.71% | 11.67%- 11.83% | 11.27%- 11.81% |
| Outstanding balance as at 31 December 2019 | 10,957 | 208,495 | 127,360 | 150,021 | 37,321 | 41,263 | 3,824 | 133,819 | 202,508 | 242,127 | 327,665 |

(d) A third party provided a secured loan to a subsidiary in the principal amount of RMB2,300,000,000. The secured loan has a term of 24 months, bearing interests at an annual rate of 12.0% and was repayable quarterly. As at 31 December 2019, the principal outstanding amount was RMB1,206,512,000 (2018: RMB2,349,833,000).

As at 31 December 2019, borrowings from a trust company of RMB285,100,000 with the interest rate of 14.0% per annum were secured by a legal charge over the land use right of the project.

(e) The early redemption rights of the Group and bondholder constitutes an embedded derivative and has been recognised as a financial derivative asset/liability. The fair value of financial derivative asset/liability was determined by reference to valuation prepared by an independent valuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

- (f) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

| | 1 year or less RMB'000 | 1-5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|------------------------------|-------------------------|----------------------------|------------------|
| Borrowings included in non-current liabilities: | | | | |
| At 31 December 2019 | 565,195 | 2,776,962 | 988,527 | 4,330,684 |
| At 31 December 2018 | 519,420 | 1,973,565 | 1,041,525 | 3,534,510 |
| Borrowings included in current liabilities: | | | | |
| At 31 December 2019 | 1,929,664 | – | – | 1,929,664 |
| At 31 December 2018 | 2,817,188 | – | – | 2,817,188 |

- (g) The carrying amounts and fair value of the borrowings are as follows:

| | Notes | 31 December 2019 | | 31 December 2018 | |
|------------------|-------|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | | Carrying amount RMB'000 | Fair Value RMB'000 | Carrying amount RMB'000 | Fair Value RMB'000 |
| Bank borrowings | (i) | 1,277,390 | 1,277,390 | 1,627,588 | 1,627,588 |
| Secured notes | (ii) | 2,005,986 | 1,981,743 | – | – |
| Unsecured bonds | (ii) | 1,485,360 | 1,630,211 | 1,646,900 | 1,771,722 |
| Other borrowings | (i) | 1,491,612 | 1,491,612 | 3,077,210 | 3,077,210 |
| | | 6,260,348 | 6,380,956 | 6,351,698 | 6,476,520 |

- (i) The fair values were estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

- (ii) Inputs for the liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(h) The effective interest rates of borrowings are as follows:

| | 31 December | |
|------------------|---------------|---------------|
| | 2019 | 2018 |
| Bank borrowings | 2.50%-5.94% | 2.50%-8.00% |
| Secured notes | 13.15%-13.26% | N/A |
| Unsecured bonds | 11.27%-14.07% | 10.92%-18.75% |
| Other borrowings | 12.00%-14.00% | 7.00%-12.00% |

(i) The maturity of the borrowings is as follows:

| | Bank borrowings | Secured notes | Unsecured bonds | Other borrowings | Total |
|------------------------|--------------------|------------------|--------------------|---------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| As at 31 December 2019 | | | | | |
| Within 1 year | 712,195 | – | 10,957 | 1,206,512 | 1,929,664 |
| 1–2 years | 194,496 | – | 335,855 | – | 530,351 |
| 2–5 years | 55,721 | 2,005,986 | 150,021 | 285,100 | 2,496,828 |
| Over 5 years | 314,978 | – | 988,527 | – | 1,303,505 |
| | 1,277,390 | 2,005,986 | 1,485,360 | 1,491,612 | 6,260,348 |
| As at 31 December 2018 | | | | | |
| Within 1 year | 1,108,168 | – | 289,174 | 1,419,846 | 2,817,188 |
| 1–2 years | 48,960 | – | 121,890 | 1,622,316 | 1,793,166 |
| 2–5 years | 176,460 | – | 194,311 | 35,048 | 405,819 |
| Over 5 years | 294,000 | – | 1,041,525 | – | 1,335,525 |
| | 1,627,588 | – | 1,646,900 | 3,077,210 | 6,351,698 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22 BANK AND OTHER BORROWINGS, AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(j) As at 31 December 2019 and 2018, the Group had the following undrawn borrowing facilities:

| | 31 December | |
|--------------------------|----------------|------------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Floating rate: | | |
| – expiring within 1 year | 161,244 | 399,360 |
| – expiring beyond 1 year | – | 630,864 |
| | <u>161,244</u> | <u>1,030,224</u> |

(k) Pledge of assets

As at 31 December 2019 and 2018, the Group's assets with carrying amounts included in the following categories in the consolidated balance sheet were pledged to secure credit facilities granted to the Group:

| | 31 December | |
|------------------------------|------------------|------------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Buildings | 113,944 | 221,398 |
| Right-of-use assets | 93,093 | – |
| Investment properties | 2,985,291 | 1,867,157 |
| Properties under development | 4,872,716 | 6,370,886 |
| Properties held for sale | 440,000 | – |
| Pledged deposits | 12,000 | 45,410 |
| | <u>8,517,044</u> | <u>8,504,851</u> |

In addition, as at 31 December 2019 and 2018, the Group's certain loan facilities were secured by:

- personal guarantee provided by Mr. Yu Pan and legal charge over shares which are beneficially owned by Mr. Yu Pan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

| | 31 December | |
|--|------------------|------------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Deferred income tax assets | | |
| To be realised after more than 12 months | 73,875 | 20,388 |
| To be realised within 12 months | 10,436 | 5,261 |
| | <u>84,311</u> | <u>25,649</u> |
| Deferred income tax liabilities | | |
| To be realised after more than 12 months | (584,791) | (534,488) |
| To be realised within 12 months | (260) | (60,368) |
| | <u>(585,051)</u> | <u>(594,856)</u> |
| | <u>(500,740)</u> | <u>(569,207)</u> |

The net movements on the deferred income tax are as follows:

| | 31 December | |
|--|------------------|------------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Beginning of the year | (569,207) | (235,246) |
| Acquisition of subsidiaries | – | (337,606) |
| Payment of withholding tax | 23,500 | – |
| Tax charged in consolidated income statement | 44,967 | 3,645 |
| | <u>(500,740)</u> | <u>(569,207)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES (continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

| | Tax losses <i>RMB'000</i> | Temporary difference on unrealised profit of intercompany transactions <i>RMB'000</i> | Non-deductible land appreciation tax <i>RMB'000</i> | Total <i>RMB'000</i> |
|-----------------------------|------------------------------|--|--|-------------------------|
| As at 1 January 2019 | – | – | 25,649 | 25,649 |
| Charged to profit or loss | 17,539 | 8,788 | 99,095 | 125,422 |
| As at 31 December 2019 | 17,539 | 8,788 | 124,744 | 151,071 |
| As at 1 January 2018 | – | – | 18,142 | 18,142 |
| Acquisition of a subsidiary | – | – | 2,247 | 2,247 |
| Charged to profit or loss | – | – | 5,260 | 5,260 |
| As at 31 December 2018 | – | – | 25,649 | 25,649 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES (continued)

(b) Deferred income tax liabilities

| | Tax base difference | | | | | Total RMB'000 |
|---------------------------------------|-------------------------------|---------------------|-------------------------------------|---|---|------------------|
| | Withholding tax RMB'000 | Building RMB'000 | Investment properties RMB'000 | Properties under development RMB'000 | Properties held for sales RMB'000 | |
| As at 1 January 2019 | (23,500) | (15,435) | (295,230) | (80,356) | (180,335) | (594,856) |
| Payment of withholding tax | 23,500 | - | - | - | - | 23,500 |
| Credit/(charged) to profit or loss | - | 260 | (85,872) | 2,530 | 2,627 | (80,455) |
| At 31 December 2019 | - | (15,175) | (381,102) | (77,826) | (177,708) | (651,811) |
| At 1 January 2018 | (39,975) | (5,778) | (179,465) | (28,170) | - | (253,388) |
| Acquisition of subsidiaries | - | (9,917) | (55,399) | (70,933) | (203,604) | (339,853) |
| Payment of withholding tax | 32,950 | - | - | - | - | 32,950 |
| Credit/(charged) to profit or loss | (16,475) | 260 | (60,366) | 18,747 | 23,269 | (34,565) |
| At 31 December 2018 | (23,500) | (15,435) | (295,230) | (80,356) | (180,335) | (594,856) |

As at 31 December 2019, the Group have estimated unutilised tax losses of approximately RMB342,527,000 (2018: RMB121,871,000) for offsetting against future assessable profits. RMB70,372,000 out of the tax losses has been recognised deferred tax assets as at 31 December 2019 (2018: Nil). The unrecognised tax losses include a balance of RMB213,726,000 (2018: RMB57,815,000) which may be carried forward indefinitely, and the remaining balance of RMB128,801,000 (2018: RMB64,057,000) will expire in five years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries. The relevant overseas holding companies have successfully obtained endorsement from the PRC tax bureau to enjoy the treaty benefit of 5% withholding income tax rate on dividends received from the PRC subsidiaries of the Group in 2019. Accordingly, withholding income tax has been provided at 5% of the dividends to be distributed by the PRC subsidiaries of the Group for the year ended 31 December 2019 (2018: 5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23 DEFERRED TAX ASSET/LIABILITIES (continued)

(b) Deferred income tax liabilities (continued)

| Year | <i>RMB'000</i> |
|------------|----------------|
| 2020 | 3,809 |
| 2021 | 4,983 |
| 2022 | 26,657 |
| 2023 | 28,608 |
| 2024 | 64,744 |
| Indefinite | 213,726 |
| | <u>342,527</u> |

24 CONTRACT COSTS

| | 31 December | |
|----------------|----------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contract costs | <u>152,882</u> | <u>80,698</u> |

Expenses of sales recognised in relation to contract costs

The following table set out the expenses of sales recognised in the current reporting period relates to carried-forward contract costs:

| | 31 December | |
|--|----------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Expenses recognised that was included in contract costs balance at the beginning of the year | <u>74,680</u> | <u>70,207</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

| | 31 December | |
|---|------------------|------------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Financial assets | | |
| Financial assets at amortised cost: | 3,485,166 | 4,118,428 |
| Trade receivables | 440,184 | 196,440 |
| Other receivables | 1,136,335 | 835,295 |
| Restricted cash | 336,029 | 676,630 |
| Cash and cash equivalents | 1,572,618 | 2,410,063 |
| FVTPL | 329,828 | 10,000 |
| Derivative financial assets | – | 60,388 |
| | 3,814,994 | 4,188,816 |
| Financial liabilities | | |
| | 31 December | |
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Financial liabilities at amortised cost: | | |
| Borrowings | 6,260,348 | 6,351,698 |
| Trade and other payables excluding accrued taxes and surcharges and salaries payable | 3,404,507 | 1,997,041 |
| Derivative financial liabilities | 670 | 10,895 |
| | 9,665,525 | 8,359,634 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26 RESTRICTED AND PLEDGED DEPOSITS

| | | 31 December | |
|--|------|----------------|----------------|
| | Note | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| To secure for: | | | |
| – letter of credit issued by banks to guarantee repayment of loans | (a) | 12,000 | 45,410 |
| – the payment of construction cost of development projects | (b) | 324,029 | 630,987 |
| – others | | – | 233 |
| | | 336,029 | 676,630 |
| Denominated in: | | | |
| – RMB | | 336,029 | 676,630 |

(a) As at 31 December 2019, to secure a subsidiary's repayment of a commercial bank's loan of HK\$750,000,000 (2018: HK\$50,000,000), approximately RMB671,850,000 (2018: RMB43,810,000), a bank deposit of RMB12,000,000 (2018: RMB45,410,000) was placed in a local bank in the PRC and legal charges over the titles of some investment properties and properties held for sale were made in favour of the bank.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

27 CASH AND CASH EQUIVALENTS

| | 31 December | |
|---|------------------|------------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Short-term bank deposits | 12,000 | 45,410 |
| Cash at bank and in hand | 1,896,647 | 3,041,283 |
| | 1,908,647 | 3,086,693 |
| Less: Restricted and pledged deposits (Note 26) | (336,029) | (676,630) |
| | 1,572,618 | 2,410,063 |
| Denominated in: | | |
| – RMB | 1,410,265 | 2,338,167 |
| – US\$ | 159,903 | 3,731 |
| – HK\$ | 2,450 | 68,165 |
| | 1,572,618 | 2,410,063 |

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28 TRADE AND OTHER PAYABLES

| | | 31 December | |
|--|-----------|------------------|------------------|
| | | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| Trade payables | (a) | 9,000 | 5,392 |
| Construction costs payable | (b) | 2,222,869 | 1,708,808 |
| Other payables and accruals | | 1,087,163 | 205,707 |
| – A joint venture | 38(e)(i) | 941,532 | 55,817 |
| – Third parties | (c) | 145,631 | 149,890 |
| Accrued taxes and surcharges | | 76,706 | 77,572 |
| Salaries and bonuses accruals | | 61,606 | 89,492 |
| Tender payable to the suppliers | | 56,895 | 61,533 |
| Receipt in advance, rental and other deposits from residents and tenants | | 28,580 | 15,601 |
| – Related parties | 38(e)(ii) | 213 | 265 |
| – Third parties | | 28,367 | 15,336 |
| | | 3,542,819 | 2,164,105 |

(a) The ageing analysis of trade payables as at 31 December 2019 and 2018 is as follows:

| | | 31 December | |
|----------------------------------|--|--------------|--------------|
| | | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| Within 30 days | | – | – |
| Over 30 days and within 90 days | | 7,598 | 2,242 |
| Over 90 days and within 365 days | | 1,377 | 3,146 |
| Over 365 days | | 25 | 4 |
| Total trade payables | | 9,000 | 5,392 |

(b) Construction costs payable comprise construction costs and other project-related expenses payable which are based on project progress measured by project management team of the Group. Therefore, no ageing analysis is presented.

(c) These amounts are unsecured, interest-free, repayable on demand and non-trade item.

(d) The Group's trade and other payables are mainly denominated in RMB.

(e) The fair value of trade and other payables approximate their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29 CONTRACT LIABILITIES

| | 31 December | |
|----------------------|------------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contract liabilities | 8,050,565 | 8,559,878 |

(a) **Revenue recognised in relation to contract liabilities**

The following table set out the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

| | Year ended 31 December | |
|---|------------------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue recognised that was included in contract liabilities balance at the beginning of the year | 6,735,055 | 6,288,527 |

(b) **Unsatisfied performance obligations**

The amount of unsatisfied performance obligation is approximately the same as the balance of contract liability, which are expected to be recognised in 1 to 3 years as of 31 December 2019 and 31 December 2018.

30 FINANCIAL GUARANTEE CONTRACT

| | 31 December | |
|---|------------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties | 9,917,542 | 7,617,557 |

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company consider that the likelihood of default in payments by purchasers is minimal and in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore the fair value of these financial guarantees is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31 SHARE CAPITAL AND SHARE PREMIUM

| | Note | Number of shares Ordinary share capital '000 | Nominal value Ordinary share capital HK\$'000 | Equivalent nominal value of ordinary share capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
|--|-------|--|---|--|-----------------------------|------------------|
| Authorised: | | | | | | |
| At 1 January 2018 | | 30,000,000 | 300,000 | 311,316 | | |
| Effect of Share Subdivision | (i) | 60,000,000 | - | - | | |
| At 31 December 2018, 1 January 2019 and 31 December 2019 | | 90,000,000 | 300,000 | 311,316 | | |
| Issued and fully paid: | | | | | | |
| At 1 January 2018 | | 2,618,097 | 26,181 | 24,469 | 1,664,749 | 1,689,218 |
| Shares issued under share option scheme | | 30,310 | 303 | 190 | 26,924 | 27,114 |
| Effect of Share Subdivision | | 5,274,268 | - | - | - | - |
| At 31 December 2018 and 1 January 2019 | | 7,922,675 | 26,484 | 24,659 | 1,691,673 | 1,716,332 |
| Shares issued under share option scheme | (ii) | 21,647 | 72 | 64 | 9,365 | 9,429 |
| Shares repurchased | (iii) | (17,590) | (59) | (53) | (16,367) | (16,420) |
| At 31 December 2019 | | 7,926,732 | 26,497 | 24,670 | 1,684,671 | 1,709,341 |

Notes:

- (i) Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting of the Company held on 19 October 2018, every one issued and unissued existing ordinary share of HK\$0.01 each in the share capital of the Company was subdivided into three subdivided shares of one third Hong Kong cent each (the "Share Subdivision"). The Share Subdivision was completed on 22 October 2018.
- (ii) During the year ended 31 December 2019, total of 7,139,706 share options with exercise price of HK\$0.2238 granted under the 2005 Scheme and 14,507,500 share options with exercise price of HK\$0.3607 granted under 2015 Scheme to subscribe for aggregate 21,647,206 ordinary shares in the Company were exercised at a total consideration of HK\$6,830,721, equivalent to approximately RMB6,354,000. Accordingly the Company recognised RMB64,000 and RMB6,290,000 as share capital and share premium respectively. The amount of RMB3,075,000 was transferred from the share-based payment reserve to the share premium which was recognised in previous years in accordance with policy set out in Note 2.22.
- (iii) During the year ended 31 December 2019, the Company repurchased its 17,590,000 ordinary shares from market at a consideration of HK\$18,284,000, equivalent to approximately RMB16,420,000. The shares are under process of cancellation. RMB53,000 was debited to share capital and the balance of RMB16,367,000 was debited to share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32 RESERVES

| | Note | Share-based payment reserve RMB'000 | Shares held for share award scheme reserve RMB'000 | Foreign Exchange RMB'000 | Other reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|------|--|---|--------------------------------|------------------------------|--------------------------------|------------------|
| At 1 January 2018 | | 24,636 | – | 1,386 | (269,765) | 898,131 | 654,388 |
| Exchange differences arising on foreign operations | | – | – | (4,043) | – | – | (4,043) |
| Issue of shares: upon exercise of share options | 33 | (9,498) | – | – | – | – | (9,498) |
| Recognition of equity- settled share-based payment expenses | 33 | 5,709 | – | – | – | – | 5,709 |
| Purchase of shares for share award scheme | 34 | – | (114,691) | – | – | – | (114,691) |
| Final dividend for 2017 | | – | – | – | – | (86,087) | (86,087) |
| Profit for the year | | – | – | – | – | 751,315 | 751,315 |
| As at 31 December 2018 and at 1 January 2019 | | 20,847 | (114,691) | (2,657) | (269,765) | 1,563,359 | 1,197,093 |
| Exchange differences arising on foreign operations | | – | – | 2,211 | – | – | 2,211 |
| Issue of shares: Exercise of share options | 33 | (3,075) | – | – | – | – | (3,075) |
| Recognition of employee share option and share award scheme | 33 | 30,848 | – | – | – | – | 30,848 |
| Reallocation of lapsed options from share-based payment reserve to retained profits | | (5,834) | – | – | – | 5,834 | – |
| Purchase of shares for share award scheme | 34 | – | (29,223) | – | – | – | (29,223) |
| Final dividend for 2018 | | – | – | – | – | (160,280) | (160,280) |
| Profit for the year | | – | – | – | – | 792,258 | 792,258 |
| At 31 December 2019 | | 42,786 | (143,914) | (446) | (269,765) | 2,201,171 | 1,829,832 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32 RESERVES (continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

| | |
|--|--|
| Share-based payment reserve | The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in Note 2.22. |
| Shares held for share award scheme reserve | The shares held for share award scheme is the consideration paid, including any directly attributable incremental costs for purchase of shares under the Share Award Scheme. |
| Foreign exchange reserve | The amount represents gains/losses arising from the translation of the financial statements of foreign operations. |

33 SHARE OPTION SCHEME

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "2005 Scheme").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest to participate in the 2005 Scheme. Each option gives the holder the right to subscribe for ordinary share in the Company.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "Board") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

As at 31 December 2019, share options of 18,259,661 granted under 2005 Scheme were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33 SHARE OPTION SCHEME (continued)

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "2015 Scheme").

The Company operates the 2015 Scheme for the purposes of continuing the provision of incentives or rewards to eligible participants. The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee; and (ii) any directors of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

As at 31 December 2019, share options of 123,342,100 granted under 2015 Scheme were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33 SHARE OPTION SCHEME (continued)

(c) 2005 and 2015 Scheme

Details of the movement of the share options are as follows:

| Date of grant | Exercise period | Exercise price per share before the completion of share sub-division | Adjusted exercise price per share | Number of options outstanding at 1 January 2018 | During the year ended 31 December 2018 | | | During the year ended 31 December 2019 | | | Number of options outstanding at 31 December 2019 |
|---------------------------------|----------------------------------|--|-----------------------------------|---|--|--|--|--|-------------------|----------------|---|
| | | | | | Options exercised | Adjusted options upon completion of share sub-division | Options exercised after completion of share sub-division | Number of options outstanding at 31 December 2018 and 1 January 2019 | Options exercised | Options lapsed | |
| 11 August 2011 | 11 August 2012 to 10 August 2021 | HK\$0.6714 | HK\$0.2238 | 5,942,929 | (3,219,826) | 5,446,206 | (4,103,094) | 4,066,215 | (4,066,215) | - | - |
| 11 August 2011 | 11 August 2015 to 10 August 2021 | HK\$0.6714 | HK\$0.2238 | 5,942,930 | (2,840,984) | 6,203,892 | (923,432) | 8,382,406 | (402,060) | - | 7,980,346 |
| 11 August 2011 | 11 August 2018 to 10 August 2021 | HK\$0.6714 | HK\$0.2238 | 5,942,932 | - | 11,885,864 | (4,878,050) | 12,950,746 | (2,671,431) | - | 10,279,315 |
| | | | | 17,828,791 | (6,060,810) | 23,535,962 | (9,904,576) | 25,399,367 | (7,139,706) | - | 18,259,661 |
| 26 June 2015 | 26 June 2016 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 8,622,900 | (4,884,300) | 7,477,200 | - | 11,215,800 | (2,763,300) | - | 8,452,500 |
| 26 June 2015 | 26 June 2017 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 8,629,900 | (4,137,700) | 8,984,400 | (1,003,000) | 12,473,600 | (2,802,700) | - | 9,670,900 |
| 26 June 2015 | 26 June 2018 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 9,409,400 | (3,954,000) | 10,910,800 | (365,400) | 16,000,800 | (576,000) | (3,000) | 15,421,800 |
| 26 June 2015 | 26 June 2019 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 9,409,400 | - | 18,818,800 | - | 28,228,200 | (8,365,500) | (429,000) | 19,433,700 |
| 26 June 2015 | 26 June 2020 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 9,409,400 | - | 18,818,800 | - | 28,228,200 | - | (4,719,000) | 23,509,200 |
| 26 June 2015 | 26 June 2021 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 9,409,400 | - | 18,818,800 | - | 28,228,200 | - | (4,719,000) | 23,509,200 |
| 26 June 2015 | 26 June 2022 to 25 June 2025 | HK\$1.0820 | HK\$0.3607 | 9,343,600 | - | 18,687,200 | - | 28,030,800 | - | (4,686,000) | 23,344,800 |
| | | | | 64,234,000 | (12,976,000) | 102,516,000 | (1,368,400) | 152,405,600 | (14,507,500) | (14,556,000) | 123,342,100 |
| | | | | 82,062,791 | (19,036,810) | 126,051,962 | (11,272,976) | 177,804,967 | (21,647,206) | (14,556,000) | 141,601,761 |
| Weighted average exercise price | | HK\$0.9928 | HK\$0.9513 | HK\$0.3351 | HK\$0.2404 | HK\$0.3411 | HK\$0.3155 | HK\$0.3607 | HK\$0.3430 | | |
| <i>Analysis by category:</i> | | | | | | | | | | | |
| Directors | | | | 16,213,097 | (656,000) | 31,114,194 | (5,000,000) | 41,671,291 | - | - | 41,671,291 |
| Other employees | | | | 65,849,694 | (18,380,810) | 94,937,768 | (6,272,976) | 136,133,676 | (21,647,206) | (14,556,000) | 99,930,470 |
| | | | | 82,062,791 | (19,036,810) | 126,051,962 | (11,272,976) | 177,804,967 | (21,647,206) | (14,556,000) | 141,601,761 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33 SHARE OPTION SCHEME (continued)

- (d) The fair value of each option granted on 11 August 2011 and 26 June 2015 were HK\$0.42 and HK\$0.58 respectively which was determined using Binomial Model by an independent valuer.

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

| Option Exercise Period | 2005 Scheme Number of share options exercisable |
|-----------------------------|---|
| From 11/8/2012 to 10/8/2021 | 33% |
| From 11/8/2015 to 10/8/2021 | 33% |
| From 11/8/2018 to 10/8/2021 | 34% |
| | 100% |

| Option Exercise Period | 2015 Scheme Number of share options exercisable |
|-----------------------------|---|
| From 26/6/2016 to 25/6/2025 | 14.30% |
| From 26/6/2017 to 25/6/2025 | 14.30% |
| From 26/6/2018 to 25/6/2025 | 14.30% |
| From 26/6/2019 to 25/6/2025 | 14.30% |
| From 26/6/2020 to 25/6/2025 | 14.30% |
| From 26/6/2021 to 25/6/2025 | 14.30% |
| From 26/6/2022 to 25/6/2025 | 14.20% |
| | 100.00% |

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB1,394,000 (2018: RMB5,709,000), as equity-settled share-based payment expenses for the year ended 31 December 2019 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK\$0.2238 to HK\$0.3607. During the year, 21,647,206 share options were exercised, the weighted average share price at the date of exercise of option is HK\$0.3155.

The number of exercisable options as at 31 December 2019 is 71,238,561 (2018: 65,089,567). The weighted average remaining contractual life of the outstanding options as at 31 December 2019 is 5.7 years (2018: 7.1 years)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34 SHARE AWARD SCHEME BY THE COMPANY

On 3 July 2018 (the “Adoption Date”), the Board adopted a share award scheme (the “Share Award Scheme”) which has taken effect on the same day to provide individual employees (“Selected Participants”) of the Group proposed by the Board with an opportunity to acquire a proprietary interest in the Company for the purpose of (i) recognising the contributions by certain employees and give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) attracting suitable personnel for further development of the Group.

On the Adoption Date, The Company appointed a trustee, an independent third party, for the administration of the Share Award Scheme. The award shares may be satisfied by (i) existing shares to be acquired by the trustee from the market; or (ii) new shares to be allotted and issued to the trustee by the Company under the mandate sought from the shareholders in its general meeting, in both case the costs of which will be borne by the Company. The trustee shall hold such shares in trust until they are vested to the beneficiaries in accordance to the rules of the Share Award Scheme.

The Share Award Scheme came into effect on the Adoption Date, and shall terminate on the earlier of (i) the tenth anniversary date; and (ii) such date of early termination as determined by the directors of the Company.

As at 31 December 2019, 158,278,000 shares (2018: 125,540,000 shares) were purchased for a total cash consideration of approximately HK\$164,186,000 (equivalent to approximately RMB143,913,000) (2018: approximately HK\$129,426,000 (equivalent to approximately RMB114,691,000)) and held by the Trustee representing approximately 1.99% (2018: approximately 1.58%) of the issued share capital of the Company.

Approved by Remuneration Committee, on 26 April 2019, a total of 39,833,333 shares are awarded to Selected Participant with no consideration. The vesting period covers from 1 May 2019 to 30 April 2020. The fair value of the shares HK\$1.21 was estimated by taking reference to the market price of the Company’s shares on grant date. The fair value of shares granted is recognised as employee costs with a corresponding increase in share award scheme reserve within equity over the relevant vesting periods. The Group recognised RMB29,454,000 (2018: Nil), as share award scheme expenses for the year ended 31 December 2019 in relation to share award scheme granted by the Company.

All the shares held by the Trustee for the purpose of the Scheme are listed below:

| | Number of shares | |
|-------------------------------|------------------|-------------|
| | 2019 | 2018 |
| At 31 December | 158,278,000 | 125,540,000 |
| % of the issued share capital | 1.99% | 1.58% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash from operating activities

| | Note | Year ended 31 December | |
|---|------|------------------------|-----------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Profit before income tax | | 1,579,850 | 1,644,102 |
| <i>Adjustments for:</i> | | | |
| Finance costs – net | 7 | 18,975 | 93,247 |
| Other gains – net | | (5,065) | (83,193) |
| Equity-settled share-based payment expenses | | 30,848 | 5,709 |
| Depreciation of property, plant and equipment | 13 | 19,323 | 18,871 |
| Depreciation of right-of-use assets | 14 | 12,111 | – |
| Amortisation of leasehold land | | – | 3,407 |
| Fair value changes in financial assets | | (4,457) | 1,476 |
| Share of losses in joint ventures, net of tax | | 20,629 | 8,101 |
| Impairment loss of trade and other receivables | | 15,383 | 6,245 |
| Loss on disposal of property, plant and equipment | | 3 | – |
| Fair value changes in investment properties | 15 | (334,267) | (269,702) |
| Impairment loss on goodwill | | – | 13,554 |
| Operating profit before working capital changes | | 1,353,333 | 1,441,817 |
| Increase in properties under development | | (2,741,220) | (28,252) |
| Decrease in properties held for sale | | 1,820,033 | 2,124,064 |
| (Increase)/decrease in trade and other receivables | | (151,554) | 3,779 |
| Increase/(Decrease) in trade and other payables | | 367,968 | (488,070) |
| Increase in contract costs | | (72,184) | (80,698) |
| (Decrease)/increase in contract liabilities | | (509,313) | 128,756 |
| Cash generated from operations | | 67,063 | 3,101,396 |
| PRC corporate income tax paid | | (266,710) | (595,812) |
| PRC land appreciation tax paid | | (139,357) | (102,782) |
| Net cash (used in)/generated from operating activities | | (339,004) | 2,402,802 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities

| | Note | Bank and other borrowings RMB'000 | Amount due to related parties RMB'000 | Total RMB'000 |
|-------------------------------------|------|--------------------------------------|--|------------------|
| As at 1 January 2019 | | 6,351,698 | – | 6,351,698 |
| Cash flows | | | | |
| – Inflow from financing activities | | 3,254,670 | 885,715 | 4,140,385 |
| – Outflow from financing activities | | (3,517,277) | – | (3,517,277) |
| Foreign exchange adjustments | | 33,218 | – | 33,218 |
| Other changes | (i) | 138,039 | – | 138,039 |
| As at 31 December 2019 | | 6,260,348 | 885,715 | 7,146,063 |
| | | | | |
| | | Bank and other borrowings RMB'000 | Amount due to related parties RMB'000 | Total RMB'000 |
| As at 1 January 2018 | | 4,275,294 | – | 4,275,294 |
| Cash flows | | | | |
| – Inflow from financing activities | | 4,797,745 | – | 4,797,745 |
| – Outflow from financing activities | | (6,797,103) | – | (6,797,103) |
| Foreign exchange adjustments | | 70,342 | – | 70,342 |
| Other changes | (i) | 4,005,420 | – | 4,005,420 |
| As at 31 December 2018 | | 6,351,698 | – | 6,351,698 |

(i) Other non-cash movements mainly comprise: i) the acquisition of a subsidiary with loans during the year ended 31 December 2018, and (ii) amortisation of issuance costs and prepaid interest of corporate bonds.

36 COMMITMENTS

(a) Operating leases commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

| | 31 December | |
|-----------------|-------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Within one year | 2,244 | 826 |

(b) Other commitments

| | 31 December | |
|---|-------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Expenditure contracted but not provided for in respect of | | |
| – Property construction and development costs | 1,701,740 | 2,313,928 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37 CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2019 (2018: Nil).

38 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

| Name | Relationship |
|--|---|
| Mr. Yu Pan | The ultimate controlling shareholder and also the director of the Company |
| 廣州市豐嘉企業發展有限公司 (<i>Guangzhou Fengjia Enterprise Development Company Limited</i>)* | Controlled by the ultimate controlling shareholder |
| 綠景控股股份有限公司 (<i>Lvjing Holding Company Limited</i>)* (<i>"Lvjing Holding"</i>) | Controlled by the ultimate controlling shareholder |
| 廣州市明安醫療投資有限公司 (<i>Guangzhou Mingan Medical Investment Company Limited</i>)* (<i>"Guangzhou Mingan"</i>) | Controlled by the ultimate controlling shareholder |
| Qianhai Yitong | Controlled by the ultimate controlling shareholder |
| Cosmos Tianyu Holdings Limited (<i>"Cosmos Tianyu"</i>) (宏宇天譽控股有限公司) | Controlled by the ultimate controlling shareholder |
| 廣西眾擎易舉投資有限公司 (<i>Guangxi Zhongqing Yiju Investment Company Limited</i>)* (<i>"Zhongqing Yiju"</i>) | Joint venture of the Group |

* English name is for identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

During the years ended 31 December 2019 and 2018, the Group had the following significant transactions with related parties:

| | Year ended 31 December | |
|--|------------------------|----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Nature of transactions | | |
| Controlled by the ultimate controlling shareholder | | |
| Secured notes invested by a related company | 139,524 | – |
| Rental income received from office leasing | 1,386 | 111 |
| Management fee paid to a related company | (200) | (200) |
| Consideration paid for acquisition of a subsidiary from a related company | – | (45,126) |

(c) Personal guarantee by the ultimate controlling shareholder

As at 31 December 2019, Mr. Yu Pan and a company controlled by him have provided guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries as disclosed in Note 22(k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38 RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in Note 39, incurred during the year is as follows:

| | Year ended 31 December | |
|---|------------------------|---------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Short-term benefits | 29,562 | 30,400 |
| Other long-term benefits | 669 | 462 |
| Equity-settled share-based payment expenses | 20,444 | 2,802 |
| | <u>50,675</u> | <u>33,664</u> |

(e) Balances with related parties

As at 31 December 2019 and 2018, the Group has the following significant balances with related parties:

| | Note | 31 December | |
|---|-------|----------------|---------------|
| | | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| Secured notes included in bank and other borrowings: | | | |
| Cosmos Tianyu | | <u>139,524</u> | – |
| Financial assets at fair value through profit or loss: | | | |
| Qianhai Yitong | 16(a) | <u>10,000</u> | 10,000 |
| Amounts due to related parties included in other payables: | | | |
| Zhongqing Yiju | (i) | <u>941,532</u> | 55,817 |
| Lvjing Holding and Guangzhou Mingan | (ii) | <u>213</u> | 265 |
| | | <u>941,745</u> | <u>56,082</u> |

(i) Amounts due to a joint venture included in other payables is cash advance in nature, which is unsecured, interest-free and repayable on demand.

(ii) Amounts due to companies controlled by the ultimate controlling shareholder in other payables are deposits from lease, which is unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39 BENEFITS OF DIRECTORS

The remuneration of each director for the year ended 31 December 2019 and 2018 are set out below: Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

| | Fees RMB'000 | Salaries and other benefits RMB'000 (Note (a)) | Bonuses RMB'000 (Note (b)) | Equity-settled share-based payment and share awards expenses RMB'000 (Note (c)) | Contributions to defined contribution pension plan RMB'000 | Total RMB'000 |
|--|-----------------|--|----------------------------------|---|--|------------------|
| 2019 | | | | | | |
| Executive directors | | | | | | |
| Yu Pan | - | 2,223 | 2,687 | 1,950 | 16 | 6,876 |
| Wen Xiaobing | 105 | 2,099 | 228 | 1,584 | 88 | 4,104 |
| Wang Chenghua | - | 1,942 | 907 | 1,231 | 16 | 4,096 |
| Jin Zhifeng (appointed on 1 October 2019) | - | 528 | 734 | 1,231 | 4 | 2,497 |
| Non-executive director | | | | | | |
| Wong Lok (re-designated from executive director to non-executive director on 1 January 2019) | 228 | - | - | - | - | 228 |
| Liu Juan (resigned on 28 February 2019) | - | - | - | - | - | - |
| Independent non-executive directors | | | | | | |
| Choy Shu Kwan | 210 | - | - | 44 | - | 254 |
| Cheng Wing Keung, Raymond | 210 | - | - | 44 | - | 254 |
| Chung Lai Fong | 210 | - | - | 44 | - | 254 |
| | 963 | 6,792 | 4,556 | 6128 | 124 | 18,563 |
| 2018 | | | | | | |
| Executive directors | | | | | | |
| Yu Pan | - | 2,138 | 2,552 | - | 15 | 4,705 |
| Wen Xiaobing | 101 | 1,936 | 2,502 | 561 | 85 | 5,185 |
| Wong Lok | - | 223 | - | - | 11 | 234 |
| Wang Chenghua (appointed on 22 October 2018) | - | 1,563 | - | - | 12 | 1,575 |
| Non-executive director | | | | | | |
| Liu Juan (appointed on 22 October 2018) | - | - | - | - | - | - |
| Li Weijing (resigned on 22 October 2018) | - | - | - | - | - | - |
| Independent non-executive directors | | | | | | |
| Choy Shu Kwan | 202 | - | - | 63 | - | 265 |
| Cheng Wing Keung, Raymond | 202 | - | - | 63 | - | 265 |
| Chung Lai Fong | 202 | - | - | 63 | - | 265 |
| | 707 | 5,860 | 5,054 | 750 | 123 | 12,494 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39 BENEFITS OF DIRECTORS (continued)

- (a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.
- (b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.
- (c) The Group has to estimate the expected percentage of grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") of the shares option scheme and share award scheme in order to determine the amount of share-based compensation expenses charged to profit or loss. As at 31 December 2019, the Expected Retention Rate was assessed to be 100% (2018: 100%).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40 BALANCE SHEET OF THE COMPANY

| | | 31 December | |
|--|------|------------------|------------------|
| | Note | 2019 | 2018 |
| | | RMB'000 | RMB'000 |
| Non-current assets | | | |
| Interests in subsidiaries | | 90,332 | 2,119 |
| Amounts due from subsidiaries | | 3,711,203 | 3,497,959 |
| Derivative financial asset | | – | 60,388 |
| | | 3,801,535 | 3,560,466 |
| Current assets | | | |
| Amounts due from subsidiaries | | 1,889,842 | 18,282 |
| Other receivables and prepayments | | 49,650 | 28,961 |
| Cash and cash equivalents | | 142,692 | 47,676 |
| | | 2,082,184 | 94,919 |
| Current liabilities | | | |
| Accruals and other payables | | 52,532 | 6,295 |
| Bank and other borrowings | | 687,282 | 782,997 |
| Derivative financial liabilities | | 670 | 2,138 |
| Income tax payable | | 55,830 | 55,830 |
| | | 796,314 | 847,260 |
| Net current assets/(liabilities) | | 1,285,870 | (752,341) |
| Total assets less current liabilities | | 5,087,405 | 2,808,125 |
| Non-current liabilities | | | |
| Bank and other borrowings | | 3,480,388 | 1,419,108 |
| Derivative financial liabilities | | – | 8,757 |
| | | 3,480,388 | 1,427,865 |
| Net assets | | 1,607,017 | 1,380,260 |
| Capital and reserves | | | |
| Share capital | 31 | 24,670 | 24,659 |
| Other reserves | 41 | 1,599,659 | 1,613,945 |
| Accumulated losses | 41 | (17,312) | (258,344) |
| Total equity | | 1,607,017 | 1,380,260 |

On behalf of the Board

Jin Zhifeng
Director

Wang Chenghua
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41 RESERVES OF THE COMPANY

| | Share premium RMB'000 | Contributed surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Shares held for share award scheme reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|--------------------------|--|--|---|-------------------------------|------------------|
| At 1 January 2018 | 1,664,749 | 16,116 | 24,636 | - | (555,870) | 1,149,631 |
| Issue of shares: upon exercise of share options | 26,924 | - | (9,498) | - | - | 17,426 |
| Recognition of equity-settled share-based payment expenses | - | - | 5,709 | - | - | 5,709 |
| Purchase of shares for share award scheme | - | - | - | (114,691) | - | (114,691) |
| Final dividend for 2017 | - | - | - | - | (86,087) | (86,087) |
| Profit for the year | - | - | - | - | 383,613 | 383,613 |
| As at 31 December 2018 and at 1 January 2019 | 1,691,673 | 16,116 | 20,847 | (114,691) | (258,344) | 1,355,601 |
| Issue of shares: Exercise of share options | 9,364 | - | (3,075) | - | - | 6,289 |
| Repurchase of shares | (16,366) | - | - | - | - | (16,366) |
| Employee share option and share award schemes | - | - | 30,848 | - | - | 30,848 |
| Reallocation of lapsed options from share-based payment reserve to accumulated losses | - | - | (5,834) | - | 5,834 | - |
| Purchase of shares for share award scheme | - | - | - | (29,223) | - | (29,223) |
| Final dividend for 2018 | - | - | - | - | (160,280) | (160,280) |
| Profit for the year | - | - | - | - | 395,478 | 395,478 |
| At 31 December 2019 | 1,684,671 | 16,116 | 42,786 | (143,914) | (17,312) | 1,582,347 |

42 PRINCIPAL SUBSIDIARIES

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Interests in subsidiaries – non-current portion | | |
| Unlisted investments, at cost | (a) 90,332 | 2,119 |
| Amounts due from subsidiaries | | |
| Amounts due from subsidiaries | (b) 5,629,649 | 3,544,845 |
| Less: Impact of initial application of HKFRS 9 | - | (10,618) |
| Less: Provision for impairment loss | (28,604) | (17,986) |
| | 5,601,045 | 3,516,241 |
| | 5,691,377 | 3,518,360 |
| Amounts due to subsidiaries | - | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42 PRINCIPAL SUBSIDIARIES (continued)

Notes:

- (a) Details of the Company's principal operating subsidiaries as at 31 December 2019 and 2018 are as follows:

| Name of subsidiaries | Place of incorporation/ establishment/ operation | Particulars of issued ordinary shares/paid-up capital | | Percentage of equity interest held by the Company | | | | Principal activities |
|--|--|--|------------------------------------|--|--------------------|------------------|--------------------|---|
| | | 2019 | 2018 | 2019 Directly | 2019 Indirectly | 2018 Directly | 2018 Indirectly | |
| 重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited)* | PRC | RMB50,000,000 | RMB50,000,000 | - | 100% | - | 100% | Property development in the PRC |
| 重慶之遠地產有限公司 (Chongqing Zhiyuan Property Company Limited)* | PRC | - | - | - | 100% | - | - | Property development in the PRC |
| Fine Luck Group Limited | BVI | United States dollar ("US\$") 1 | United States dollar ("US\$") 1 | 100% | - | 100% | - | Investment holding |
| 廣州市創泰置業有限公司(前稱 廣州市創豐投資管理諮詢有限公司) (Guangzhou Chuanghaoyu Realty Company Limited)* (Formerly named as Guangzhou Chuanghaoyu Investment Management Consulting Company Limited)* | PRC | US\$6,000,000 | US\$6,000,000 | - | 100% | - | 100% | Investment holding and property leasing |
| 廣州海涌房地產有限公司 (Guangzhou Haiyong Property Limited)* | PRC | RMB100,000,000 | - | - | 80% | - | - | Property development in the PRC |
| 廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)* | PRC | RMB53,000,000 | RMB53,000,000 | - | 100% | - | 100% | Property management services |
| 廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)* | PRC | RMB800,000 | RMB800,000 | - | 70% | - | 70% | Provision of innovative technology operating services |
| 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited)* | PRC | US\$100,000,000 | US\$100,000,000 | - | 100% | - | 100% | Property development in the PRC |
| 廣州譽凌諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* | PRC | HK\$755,000,000 | HK\$8,000,000 | - | 100% | - | 100% | Investment holding and provision of property development project management services in the PRC |
| 廣州粵威環保實業有限公司 (Guangzhou Yuwei Environmental Enterprise Company Limited)* | PRC | US\$11,327,445 | - | - | 100% | - | - | Property development in the PRC |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42 PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

- (a) Details of the Company's principal operating subsidiaries as at 31 December 2019 and 2018 are as follows (continued):

| Name of subsidiaries | Place of incorporation/ establishment/ operation | Particulars of issued ordinary shares/paid-up capital | | Percentage of equity interest held by the Company | | | | Principal activities |
|---|--|---|----------------|---|--------------------|------------------|--------------------|---|
| | | 2019 | 2018 | 2019 Directly | 2019 Indirectly | 2018 Directly | 2018 Indirectly | |
| Guangzhou Zhoutouzui Development Limited | Hong Kong | HK\$100 | HK\$100 | - | 100% | - | 100% | Investment holding |
| 桂林荔浦天譽文旅投資有限公司 (Guilin Lipu Tianyu Wenlu Investment Company Limited)* | PRC | - | - | - | 100% | - | 100% | Property development in the PRC |
| 江西新好景實業發展有限公司 (Jiangxi Xinhaojing Industrial Development Company Limited)* | PRC | RMB30,000,000 | - | - | 65.5% | - | - | Property development in the PRC |
| 昆明創澳置業有限公司 (Kunming Chuangao Realty Company Limited)* | PRC | RMB88,000,000 | - | - | 90% | - | 90% | Property development in the PRC |
| 南寧市明安醫院管理有限公司 (Nanning Mingan Hospital Management Company Limited)* | PRC | RMB210,000,000 | RMB210,000,000 | - | 70% | - | 70% | Hospital operation in the PRC |
| 南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* | PRC | RMB50,000,000 | RMB50,000,000 | - | 80% | - | 80% | Property development in the PRC |
| 南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)* | PRC | RMB777,625,000 | RMB50,000,000 | - | 100% | - | 100% | Property development in the PRC |
| 南寧天譽新景置業有限公司 (Nanning Tianyu Xinjing Realty Company Limited)* | PRC | - | - | - | 80% | - | 80% | Property development in the PRC |
| 深圳市新圍房地產開發有限公司 (Shenzhen Xinwei Property Development Company Limited)* | PRC | RMB50,000,000 | - | - | 100% | - | - | Property development in the PRC |
| Skyfame International Holdings Limited | BVI | US\$100 | - | - | 100% | - | - | Provision of financing |
| Skyfame Investments Management Limited (Formerly named as Skyfame Management Services Limited) | Hong Kong | HK\$100,000,000 | HK\$1 | 100% | - | 100% | - | Provision of management services to group entities and investment holding |
| Waymax Investments Limited | Hong Kong | HK\$1 | HK\$1 | - | 100% | - | 100% | Property investment |
| Winprofit Investments Limited | BVI | US\$100 | US\$100 | 100% | - | 100% | - | Investment holding |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42 PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

- (a) Details of the Company's principal operating subsidiaries as at 31 December 2019 and 2018 are as follows (continued):

| Name of subsidiaries | Place of incorporation/ establishment/ operation | Particulars of issued ordinary shares/paid-up capital | | Percentage of equity interest held by the Company | | | | Principal activities |
|---|--|--|----------------|--|--------------------|------------------|--------------------|------------------------------------|
| | | 2019 | 2018 | 2019 Directly | 2019 Indirectly | 2018 Directly | 2018 Indirectly | |
| 徐州嘉譽置業有限公司 (Xuzhou Jiayu Realty Company Limited)* | PRC | US\$35,000,000 | - | - | 100% | - | - | Property development in the PRC |
| 徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* | PRC | RMB55,000,000 | RMB55,000,000 | - | 70% | - | 70% | Property development in the PRC |
| 徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)* | PRC | RMB113,500,000 | RMB113,500,000 | - | 78% | - | 78% | Property development in the PRC |
| 中山市天譽萬利房地產開發有限公司 (Zhongshan Tianyu Wanli Property Development Company Limited)* | PRC | RMB1,000,000 | RMB1,000,000 | - | 51% | - | 51% | Property development in the PRC |

* English name is for identification purpose only

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43 SUBSEQUENT EVENT

Since January 2020, the epidemic of Coronavirus Disease 2019 (the “COVID-19 outbreak”) has spread across China and other countries and it has affected the business and economic activities of the Group to some extent.

The directors of the Company have assessed that the COVID-19 outbreak may have the following potential impact to the Group:

- The Group’s contacted sales of properties from 1 January 2020 to 29 February 2020 relatively dropped comparing to the same period of last year. The Group has adopted several measures to mitigate the negative impact of COVID-19 outbreak. Considering the Group does not have property projects in Hubei, which severely affected by the “COVID-19 outbreak”, the Directors consider the epidemic would not have a significant impact on the Group’s operating results in 2020.
- The Group’s rental income and commercial operation in 2020 could possibly be negatively affected by the epidemic temporarily. Given that the income from the both business lines contributed less than 5% to the Group, the Directors consider the COVID-19 outbreak would not have a significant impact on the Group’s operating results in 2020.

The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group.

OUR REGISTERED AND PRINCIPAL OFFICES

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

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

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

OUR LEGAL ADVISERS

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

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

as to Bermuda law
Conyers Dill & Pearman
29th Floor,
One Exchange Square
8 Connaught Place
Central, Hong Kong

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

LEGAL ADVISERS TO THE INITIAL PURCHASERS

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

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

TRUSTEE

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

PAYING AGENT, REGISTRAR AND TRANSFER AGENT

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

INDEPENDENT AUDITORS

For the year ended 31 December 2019 and 2020

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

SINGAPORE LISTING AGENT

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