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*This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold in the United States or to, or for the account of benefit of, U.S. persons, except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any applicable state or local securities laws. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. The Company does not intend to make any public offering of securities in the United States.*

*The communication of this announcement and any other document or materials relating to the issue of the Notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended (the “**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 Notes offered hereby are only available to, and any investment or investment activity to which this announcement relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this announcement or any of its contents.*

LOGAN

龙光地产

Logan Property Holdings Company Limited

龍光地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3380)

OVERSEAS REGULATORY ANNOUNCEMENT

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

Reference is made to the announcement of Logan Property Holdings Company Limited (the “**Company**”) dated 10 July 2019 in relation to the issue of the Notes (the “**Announcement**”). Capitalised terms used herein have the same meanings as those defined in the Announcement, unless otherwise defined.

Please refer to the attached offering memorandum in relation to the Notes (the “**Offering Memorandum**”), which is available on the website of the SGX-ST.

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

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

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

By Order of the Board
Logan Property Holdings Company Limited
Kei Hoi Pang
Chairman

Hong Kong, 18 July 2019

As at the date of this announcement, the executive directors of the Company are Mr. Kei Hoi Pang, Mr. Ji Jiande, Mr. Xiao Xu and Mr. Lai Zhuobin; the non-executive director is Ms. Kei Perenna Hoi Ting; and the independent non-executive directors are Mr. Zhang Huaqiao, Ms. Liu Ka Ying, Rebecca and Mr. Cai Suisheng.

IMPORTANT NOTICE
THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS
OUTSIDE THE UNITED STATES

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES REFERRED TO IN THE ATTACHED DOCUMENT HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR UNDER ANY SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, RESOLD TRANSFERRED OR DELIVERED DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT).

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

CONFIRMATION AND YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT, YOU MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO DEUTSCHE BANK AG, SINGAPORE BRANCH, BOCI ASIA LIMITED, BARCLAYS BANK PLC, CHINA CITIC BANK INTERNATIONAL LIMITED, HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED, GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED, CHINA INDUSTRIAL SECURITIES INTERNATIONAL BROKERAGE LIMITED, CHINA MINSHENG BANKING CORP., LTD., HONG KONG BRANCH, HEUNGKONG SECURITIES LIMITED, CEB INTERNATIONAL CAPITAL CORPORATION LIMITED AND CCB INTERNATIONAL CAPITAL LIMITED (COLLECTIVELY "THE INITIAL PURCHASERS") THAT YOU (I) ARE NON-U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) OUTSIDE THE UNITED STATES AND ARE NOT ACTING FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATIONS UNDER THE U.S. SECURITIES ACT ("REGULATION S"), IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

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

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

MiFID II product governance/Professional investors and ECPs only target market — The target market assessment in respect of the Notes by certain proposed distributors in the EEA of the offering, solely for the purpose of MiFID II and its product governance determination under Article 10 of Delegated Directive (EU) 2017/593, has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor subject to MiFID II subsequently offering, selling or recommending the Notes is responsible for undertaking its own target market assessment in respect of the Notes and determining its own distribution channels.

PRIIPs Regulations/Prohibition of Sales to EEA Retail Investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive") where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Initial Purchasers, or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

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

LOGAN

龙光地产

Logan Property Holdings Company Limited

龍光地產控股有限公司

(incorporated in the Cayman Islands with limited liability)

US\$400,000,000
6.5% Senior Notes due 2023
Issue Price: 100%

Our 6.5% Senior Notes due 2023 (the “Notes”) will bear interest from July 16, 2019 at 6.5% per annum payable semi-annually in arrears on January 16 and July 16 of each year, commencing January 16, 2020. The Notes will mature on July 16, 2023.

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

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after July 16, 2021, at redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to July 16, 2021, 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 106.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date. We may at our option redeem the Notes, in whole but not in part, at any time prior to July 16, 2021, 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. Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture governing the Notes (the “Indenture”)), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (i) senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes, (ii) at least *pari passu* in right of payment against us with respect to all of our other unsecured and unsubordinated indebtedness (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law), (iii) effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor, and (iv) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below) (including, without limitation, the Existing Notes (other than the February 2019 Notes) and other Indebtedness Guaranteed by Designated Non-Guarantors). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any). See the section entitled “Risk Factors—Risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

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

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

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained 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 offering, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any of their respective associated companies (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any).

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

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated January 29, 2019 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within 10 working days after the issue date of the Notes.

It is expected that the delivery of the Notes will be made on or about July 16, 2019 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Deutsche Bank	BOC International	Barclays	China CITIC Bank International	Haitong International	Guotai Junan International	China Industrial Securities International	China Minsheng Banking Corp., Ltd., Hong Kong Branch	HeungKong Financial	CEB International	CCB International
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The date of this offering memorandum is July 9, 2019

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

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

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

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “Insurance Mediation Directive”) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended

(the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

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

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

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

No representation or warranty, express or implied, is made or given by Deutsche Bank AG, Singapore Branch, BOCI Asia Limited, Barclays Bank PLC, China CITIC Bank International Limited, Haitong International Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, China Industrial Securities International Brokerage Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, HeungKong Securities Limited, CEB International Capital Corporation Limited and CCB International Capital Limited (“The Initial Purchasers”), Citicorp International Limited (the “Trustee”), Citibank, N.A., London Branch (the “Paying Agent,” the “Transfer Agent” and the “Registrar,” and collectively, the “Agents”) or any of their respective affiliates or advisors as to the accuracy, completeness or sufficiency of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise, representation or warranty, whether as to the past or the future. None of the Initial Purchasers, the Trustee or the Agents has independently verified any of the information contained in

this offering memorandum or can give any assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, none of the Initial Purchasers accept any responsibility for the contents of this offering memorandum or for any other statement, made or purported to be made by the Initial Purchasers or on its behalf in connection with the Company, the Subsidiary Guarantors, or the issue and offering of the Notes.

The Initial Purchasers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (saved as referred to above) which it might otherwise have in respect of this offering memorandum or any such statement.

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

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

We are not, and the Initial Purchasers are not, making an offer to sell the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the securities, including the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the securities, including the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), and distribution of this offering memorandum, see the section entitled "Transfer Restrictions" 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 offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Notes.

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

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).

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

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

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

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollar amounts were made at the rate of RMB6.8755 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018, all translations from H.K. dollar amounts into U.S. dollar amounts were made at the rate of HK\$7.8305 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018 and all translations from Singapore dollar amounts into U.S. dollar amounts were made at the rate of S\$1.3623 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Singapore dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate, or at all. All amounts converted into U.S. dollars contained in this offering memorandum are unaudited and for reference purposes only. For further information relating to the exchange rates, see the section entitled “Exchange Rate Information.”

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

References to “April 2018 S\$ Notes” are to our 6.125% Senior Notes due 2021 issued on April 16, 2018.

References to “April 2018 US\$ Notes” are to our 6.875% Senior Notes due 2021 issued on April 24, 2018 in the aggregate principal amount of US\$300 million (the “Original April 2018 US\$ Notes”) and further issued on May 30, 2018 in the aggregate principal amount of US\$100 million (the “Additional April 2018 US\$ Notes,” which were consolidated and formed a single series with the Original April 2018 US\$ Notes).

References to “August 2018 Notes” are to our 7.5% Senior Notes due 2021 issued on August 27, 2018.

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

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

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

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

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

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

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

References to “Corporate Bonds” are to our Public Corporate Bonds and Private Corporate Bonds, collectively.

References to “December 2014 Notes” are to our 9.75% Senior Notes due 2017 issued on December 8, 2014, which have been repaid in full upon maturity.

References to “December 2017 Notes” are to our 5.375% Senior Notes due 2018 issued on December 4, 2017 with an aggregate principal amount of US\$200 million, which have become matured and been fully repaid on December 3, 2018.

References to “December 6 2018 Notes” are to our 6.95% Senior Notes due 2020 with an aggregate principal amount of US\$80 million issued on December 6, 2018.

Reference to “December 12 2018 Notes” are to our 8.75% senior notes due 2020 in an aggregate principal amount of US\$370 million issued on December 12, 2018.

References to “February 2019 Notes” are to our 7.5% senior notes due 2022 in an aggregate principal amount of US\$300 million issued on February 25, 2019.

References to “Existing Notes” are to our January 2016 Notes, the January 2017 Notes, the May 2017 Notes, the March 2018 Notes, the April 2018 S\$ Notes, the April 2018 US\$ Notes, the August 2018 Notes, the December 6 2018 Notes, the December 12 2018 Notes and the February 2019 Notes collectively.

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

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

References to “Great Bay Area” are to an integrated economic and business hub in the PRC, including the cities of Hong Kong, Macau, Guangzhou, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen, Zhaoqing and Shenzhen.

References to “January 2016 Notes” are to our 7.70% Senior Notes due 2020 issued on January 19, 2016.

References to “January 2017 Notes” are to our 5.75% Senior Notes due 2022 issued on January 3, 2017 in an aggregate principal amount of US\$200 million (the “Original January 2017 Notes”) and further issued on January 9, 2019 in the aggregate principal amount of US\$50 million (the “Additional January 2017 Notes,” which were consolidated and formed a single series with the Original January 2017 Notes).

References to “June 2014 Notes” are to our 11.25% Senior Notes due 2019 issued on June 4, 2014, which we fully redeemed in June 2017.

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

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

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

References to “LAT” are to the land appreciation tax, as defined in the PRC Provisional Regulations on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) of 1994 and its implementation rules.

References to “Logan Construction” are to Logan Construction Co., Ltd. (龍光工程建設有限公司), a non-wholly owned subsidiary of ours established in the PRC on March 22, 2005.

References to “Logan Real Estate” are to Logan Real Estate Holdings Co., Ltd. (龍光地產股份有限公司), a company established in the PRC on May 15, 2003 and one of our predecessors.

References to “March 2018 Notes” are to our 6.375% Senior Notes due 2021 issued on March 7, 2018.

References to “May 2017 Notes” are to our 5.25% Senior Notes due 2023 issued on May 23, 2017.

References to “November 2017 Notes” are to our 5.125% Senior Notes due 2018 issued on November 3, 2017 with an aggregate principal amount of US\$256 million, which have become matured and been fully repaid on November 2, 2018.

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

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

References to “Public Corporate Bonds” are to a series of public corporate bonds issued by Shenzhen Logan in an aggregate principal amount of RMB8.6 billion (US\$1.3 billion) to qualified investors in tranches with a tenor of four to five years and at a coupon rate of 3.4% to 7.3% per annum.

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

References to “Private Corporate Bonds” are to a series of private corporate bonds issued by Shenzhen Logan in an aggregate principal amount of RMB9.5 billion (US\$1.4 billion) to qualified investors in tranches with a tenor of three to five years and at a coupon rate of 5.15% to 7.3% per annum.

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

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

References to “Shenzhen Logan” are to Shenzhen Logan Holding Co, Ltd., our wholly owned PRC subsidiary, formerly known as Shenzhen Youkaisi Investment Co., Ltd.

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

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

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

In this offering memorandum, unless the context otherwise requires, all references to “Affiliate” are to person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Listing Rules, which includes: (i) a “subsidiary undertaking” as defined in the twenty-third schedule to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the consolidated accounts of another entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next

consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director of our Company, chief executive or substantial shareholder of a listed issuer; and all references to “controlling shareholder” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “controlling interest” will be construed accordingly.

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

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

PRESENTATION OF OUR FINANCIAL STATEMENTS

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

FORWARD-LOOKING STATEMENTS

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

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

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

ENFORCEMENT OF CIVIL LIABILITIES

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

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

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

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

There is also uncertainty as to whether the courts of the BVI would (i) enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within

the United States; or (ii) entertain original actions brought in the courts of the BVI against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States.

We have been advised by our BVI legal advisors, Conyers Dill & Pearman, that the courts of the BVI would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in any U.S. federal or New York state court located in the borough of Manhattan, City of New York against a Subsidiary Guarantor or JV Subsidiary Guarantor (if any) incorporated in BVI under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the BVI, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the BVI, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI, and (f) there is due compliance with the correct procedures under the laws of the BVI.

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

- (a) was obtained by fraud;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);
- (c) is contrary to public policy or natural justice in Hong Kong;
- (d) is based on foreign penal, revenue or other public law; or
- (e) falls within Section 3(1) of the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Chapter 46 of the Laws of Hong Kong).

We have also been advised by our PRC legal advisors, Commerce & Finance Law Offices, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the U.S. federal or state securities laws.

SUMMARY

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

OVERVIEW

We are a property developer in the PRC focusing on the residential property market, and our products are primarily targeted at first-time homebuyers and upgraders. We believe demand from such customers is less susceptible to fluctuations in property prices and thus provides stability to our business profile. In 2018, we were ranked as the 26th-largest property developer in the PRC by comprehensive strength.⁽¹⁾

We have a land bank comprising land we acquired at competitive prices, and we strive to build our land bank by establishing and expanding our presence in economic regions which we believe hold high growth potential. As of December 31, 2018, we had a land bank with an aggregate GFA of 36.3 million sq.m., primarily comprising residential property projects with ancillary retail shops, as well as an office property project where our headquarters is located. As of December 31, 2018, approximately 62.3% of our land bank was located in the Great Bay Area region, and approximately 11.4% and 21.7% of the land bank was located in Shantou and Nanning, respectively. We believe our current land bank will be sufficient to meet our development needs and will provide a solid foundation for our continuing growth and profitability for the next five to six years, based on our current projections and our historical sales and land development records.

We have established a replicable property development process, which is supported by our in-house departments and subsidiaries specializing in design and planning, construction, decoration, procurement, sales, customer services and each other major step in the property development process. We leverage our ability to build projects through Logan Construction, our own construction subsidiary, and our centralized and strategic procurement, quick development operation model and cost control over the whole property development process to optimize our costs, shorten development cycles, improve cash flow and maintain profitability. Through our strategic planning and disciplined property development process, we aim to achieve high asset revenue for our projects. We generally target commencing pre-sales of properties within six to 10 months of acquiring a parcel of land for a substantial majority of our projects.

As of December 31, 2018, we had completed a total GFA of over 19 million sq.m. Over the past 22 years, we have established ourselves as one of the leading developers focusing on residential properties in China’s economically developed cities, regions and emerging areas, including, among others, Shenzhen and other cities located in the Great Bay Area region, Shantou and Nanning. In August 2018, we were awarded 2018 Best Investment Value Chinese Real Estate Developer (2018中國年度投資價值地產企業) by Committee of Boao Real Estate Forum (博鰲房地產論壇組委會). In July 2018, we were ranked 266th on the Fortune China 500 list in terms of our revenue in 2017. In 2019, our Group was recognized as a “2019 Top 100 Chinese Real Estate Developers—Top 10 in Profitability” jointly by the Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究所). We believe that our track record, together with the strength of our “Logan” (龍光) brand and the leadership and vision of our management team, positions us well to expand into other cities in the PRC. In 2017 and 2018, our revenue was RMB27,689.7 million and RMB44,136.9 million (US\$6,419.4 million), respectively, and our net profit was RMB7,008.5 million and RMB8,995.9 million (US\$1,308.4 million), respectively, for the same periods.

Note:

- (1) The ranking is based on a joint evaluation by Enterprise Institute of the Development Research Center of the State Council of China, Institute of Real Estate Studies of Tsinghua University and China Index Academy of the largest property developers in the PRC by comprehensive strength in 2019.

We have developed a diversified product portfolio which includes high-rise apartment buildings and low-rise garden apartments, among others, catering to the residential property market. We have developed two distinctive product styles, namely neoclassical and art deco, each of which comprises standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials. We leverage our quick development operation model and our standardized control over each step of our property development process to ensure product and service quality, maintain and improve our future development and profitability.

COMPETITIVE STRENGTHS

We believe that our success and future prospects are supported by a combination of the following key competitive strengths:

- we have a land bank comprising land we acquired at competitive prices concentrated in the economically developed Great Bay Area region, which provides a solid foundation for our future growth and profitability;
- we have effective cost control over the entire property development process;
- we have established diversified funding channels and maintained prudent financial management;
- leveraging our considerable strength in various cities in southern China, we can readily expand into other high-growth regions; and
- we have a well-experienced management team and have established comprehensive human resources policies to support our future development.

BUSINESS STRATEGIES

We intend to grow and strengthen our business through the implementation of the following core business strategies:

- consolidate our market position in Guangdong and Guangxi Provinces, and selectively expand into other high-growth regions;
- maintain our competitiveness by focusing on producing high-quality, value-added properties for first-time homebuyers and upgraders;
- further attract, develop and retain managerial talents and further elevate managerial expertise; and
- continue implementing a high-efficiency operating philosophy to achieve a quick development operation model, further enhancing our operating results.

RECENT DEVELOPMENTS

On November 20, 2018, Shenzhen Logan issued the first tranche of a public corporate bond in an aggregate principal amount of RMB2.49 billion (US\$0.4 billion) to qualified investors only with a four-year term at a coupon rate of 5.98% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option. On March 19, 2019, Shenzhen Logan issued the second tranche of the bond to qualified investors, the principal amount of which was RMB1.51 billion (US\$0.2 billion) with a coupon rate of 5.5% per annum due 2024. At the end of the third anniversary from the date of issue, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option.

On January 9, 2019, we issued the Additional January 2017 Notes in an aggregate principal amount of US\$50 million.

On January 13, 2019, the first tranche of the private corporate bonds with a principal amount of RMB2.49 billion (US\$0.4 billion) issued on January 13, 2016 had become matured and been fully repaid by us.

On January 24, 2019, we, as borrower, entered into a facility agreement with certain banks as lenders for a term loan facility of HK\$1,610 million (US\$205.6 million), which may be increased to not more than HK\$2,500 million at an interest rate of HIBOR plus 3.95% per annum. The facility will be fully repaid within 42 months after the date of the facility agreement. As of the date of this offering memorandum, the entire principal amount of HK\$1,610 million (US\$205.6 million) remains outstanding.

On February 25, 2019, we issued the 7.50% senior notes due 2022 in an aggregate principal amount of US\$300 million.

On June 28, 2019, we granted 10,500,000 share options to certain employees of us and our subsidiaries.

GENERAL INFORMATION

We were incorporated in the Cayman Islands as an exempted company with limited liability on May 14, 2010. Our shares have been listed on the Hong Kong Stock Exchange since December 20, 2013. Our place of business in Hong Kong is at Unit Nos. 02–03A, Level 68, International Commerce Centre, 1 Austin Road West, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is <http://www.loganproperty.com>. Information contained on our website does not constitute 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	Logan Property Holdings Company Limited (the “Company”).
Notes Offered.	US\$400,000,000 aggregate principal amount of 6.5% Senior Notes due 2023 (the “Notes”).
Offering Price.	100% of the principal amount of the Notes.
Maturity Date	July 16, 2023.
Interest	The Notes will bear interest from and including July 16, 2019 at the rate of 6.5% per annum, payable semi-annually in arrears.
Interest Payment Dates . . .	January 16 and July 16 of each year, commencing January 16, 2020.
Ranking of the Notes . . .	The Notes are: <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with all other unsecured and unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any, on a senior basis, subject to the limitations described in “Description of the Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors—Risks relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees;”• effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (including, without limitation, the Existing Notes (other than the February 2019 Notes) and other Indebtedness Guaranteed by Designated Non-Guarantors).
Subsidiary Guarantees. . .	Each of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) will, jointly and severally, guarantee the due and punctual payment of the principal, premium, if any, interest, and all other amounts payable under, the Notes.

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances. See the section entitled “Description of the Notes—The Subsidiary Guarantees and the JV Subsidiary Guarantees—Release of the Subsidiary Guarantees or JV Subsidiaries Guarantees.”

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries, as defined under “Description of the Notes—Definitions,” other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) the Initial Other Non-Guarantor Subsidiaries (as defined under “Description of the Notes—Definitions”). The Subsidiary Guarantors are holding companies that do not have significant operations. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future.

Any future Restricted Subsidiary (other than (i) Persons organized under the laws of the PRC and (ii) Restricted Subsidiaries designated as New Non-Guarantor Subsidiaries) will provide a guarantee of the Notes as soon as practicable (and in any event within 30 days) upon becoming a Restricted Subsidiary.

New Non-Guarantor

Subsidiaries

A future Restricted Subsidiary organized outside the PRC need not provide a Subsidiary Guarantee or JV Subsidiary Guarantee if it is so elected by the Company at the time such entity becomes a Restricted Subsidiary; *provided* that, after giving effect to the consolidated assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor (Other than Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 30% of the Total Assets of the Company. In addition, the Company may release any Subsidiary Guarantor or JV Subsidiary Guarantor by designating such Subsidiary Guarantor or JV Subsidiary Guarantor as a New Non-Guarantor Subsidiary, *provided* that, after giving effect to the consolidated assets of such New Non-Guarantor Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor (other than Exempted Subsidiaries and Listing Subsidiaries) do not account for more than 30% of the Total Assets of the Company.

See “Risk Factors — Risks relating to the Notes — Our payment obligations under the Notes will be subordinated to all existing and future obligations of the Designated Non-Guarantors, including, without limitation, the Existing Notes.”

Ranking of Subsidiary

Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

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

Ranking of JV Subsidiary Guarantees

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will, together with all the JV Subsidiary Guarantees provided by the subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to the secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will, together with all the JV Subsidiary Guarantees provided by the subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will, together with all the JV Subsidiary Guarantees provided by the subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law).

Use of Proceeds

We intend to use the net proceeds from this offering for refinancing our existing indebtedness.

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

Optional Redemption . . . At any time and from time to time on or after July 16, 2021, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the six-month period beginning on January 16 and July 16, commencing on July 16, 2021, in each case as indicated below.

<u>Six-month period</u>	<u>Redemption Price</u>
July 16, 2021	102.0%
January 16, 2022	102.0%
July 16, 2022	101.0%
January 16, 2023 and thereafter	100.0%

At any time and from time to time prior to July 16, 2021, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to July 16, 2021, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest (if any) to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption.

Repurchase of Notes
Upon a Change of
Control Triggering
Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest (if any) to (but not including) the Offer to Purchase Payment Date.

Redemption for Taxation

Reasons Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders (which notice shall be irrevocable) 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 Company or the Surviving Person for redemption, if the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor (if any) would become obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws. See the section entitled “Description of the Notes—Redemption for Taxation Reasons.”

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

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

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

Transfer Restrictions. . . . The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) 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 the section entitled “Transfer Restrictions.”

Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 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 transfer thereof will be effected only through the records maintained by Euroclear and Clearstream and their participants.	
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see the section entitled “Description of the Notes—Book-Entry; Delivery and Form.”	
Delivery of the Notes . . .	The Company expects to make delivery of the Notes, against payment in same-day funds on or about July 16, 2019, which the Company expects will be the fifth business day following the date of this offering memorandum referred to as “T+5.” You should note that initial trading of the Notes may be affected by the “T+5” settlement. See the section entitled “Plan of Distribution.”	
Trustee	Citicorp International Limited	
Paying Agent, Transfer Agent and Registrar. . .	Citibank, N.A., London Branch	
Listing and Trading	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.	
Ratings	The Notes are expected to be rated “B+” by S&P Ratings and “BB+” by Lianhe Ratings Global Limited (“Lianhe Global”). 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. We cannot assure investors that these ratings will be confirmed or they will not be adversely revised or withdrawn either before or after delivery of the Notes.	
Security Codes	<u>ISIN</u> XS2027337786	<u>Common Code</u> 202733778
Governing Law	The Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.	
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see the section entitled “Risk Factors.”	

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our summary consolidated financial and other data. The summary consolidated statement of profit or loss and other financial data for the years ended December 31, 2017 and 2018 and the summary consolidated statement of financial position data as of December 31, 2017 and 2018 set forth below (except for other financial data and US\$ data) have been derived from our consolidated financial statements as of and for the year ended December 31, 2018, which have been audited by Ernst & Young, Certified Public Accountants, and are included elsewhere in this offering memorandum. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operation. Our financial statements as of and for the year ended December 31, 2018 have been prepared and presented in accordance with HKFRS, which differ in certain respects from GAAP in other jurisdictions. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those financial statements included elsewhere in this offering memorandum. The summary financial data below is qualified in its entirety by reference to our consolidated financial statements and the notes to those financial statements included elsewhere in this offering memorandum.

SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,		
	2017	2018	
	RMB	RMB	US\$
	(in thousands, except for percentages)		
Revenue	27,689,658	44,136,908	6,419,447
Cost of sales	<u>(18,172,475)</u>	<u>(29,250,015)</u>	<u>(4,254,238)</u>
Gross profit	9,517,183	14,886,893	2,165,209
Other income and gains	696,303	1,368,665	199,064
Other expenses	(10,056)	(56,655)	(8,240)
Selling and marketing expenses	(928,729)	(1,231,356)	(179,093)
Administrative expenses	(748,045)	(1,133,851)	(164,912)
Net increase in fair value of investment properties	2,942,276	1,740,726	253,178
Net increase/(decrease) in fair value of derivative financial instruments	(113,214)	45,970	6,686
Share of profits and losses of associates	278,497	(42,958)	(6,248)
Share of losses of joint ventures	<u>(73,097)</u>	<u>(141,431)</u>	<u>(20,570)</u>
Profit from operations	11,561,118	15,436,003	2,245,074
Finance costs	<u>(672,154)</u>	<u>(1,416,943)</u>	<u>(206,086)</u>
Profit before taxation	10,888,964	14,019,060	2,038,988
Income tax	<u>(3,880,514)</u>	<u>(5,023,154)</u>	<u>(730,588)</u>
Profit for the year	<u>7,008,450</u>	<u>8,995,906</u>	<u>1,308,400</u>
Attributable to:			
— Equity shareholders of the Company	6,527,400	8,288,398	1,205,497
— Non-controlling interests	<u>481,050</u>	<u>707,508</u>	<u>102,903</u>
Profit for the year	<u>7,008,450</u>	<u>8,995,906</u>	<u>1,308,400</u>
Other financial data:			
EBITDA ⁽¹⁾	9,798,851	15,483,435	2,251,972
EBITDA margin ⁽²⁾	35.4%	35.1%	35.1%

Notes:

- (1) EBITDA for any period consists of profit from operations less changes in fair value of investment properties, and other borrowing costs included in finance costs plus capitalized interest included in direct costs and depreciation expenses included in administrative expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company’s ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to

EBITDA presented by other companies because not all companies use the same definition. See the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” for a reconciliation of our profit from operations under HKFRS to our definition of EBITDA.

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

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Non-current assets			
Investment properties	15,664,830	18,338,011	2,667,153
Other property, plant and equipment	147,867	176,014	25,600
Deferred tax assets	330,206	649,725	94,499
Investments in associates	2,653,386	1,447,180	210,484
Investments in joint ventures	9,261,913	18,042,573	2,624,183
Assets under cross-border guarantee arrangements.	—	526,335	76,552
Restricted and pledged deposits	218,102	274,350	39,903
	<u>28,276,304</u>	<u>39,454,188</u>	<u>5,738,374</u>
Current assets			
Inventories	38,457,739	54,780,698	7,967,522
Trade and other receivables, prepayments and other assets	20,448,286	37,816,369	5,500,163
Tax recoverable	753,256	773,299	112,471
Assets under cross-border guarantee arrangements	1,745,380	1,827,322	265,773
Restricted and pledged deposits	2,311,691	6,990,339	1,016,703
Cash and cash equivalents	19,878,192	28,452,462	4,138,239
	<u>83,594,544</u>	<u>130,640,489</u>	<u>19,000,871</u>
Current liabilities			
Trade and other payables	37,275,788	47,449,771	6,901,283
Contract liabilities	—	16,784,879	2,441,259
Liabilities under cross-border guarantee arrangements	1,745,380	2,515,233	365,825
Bank and other loans	5,597,885	9,577,092	1,392,930
Other current liabilities	7,000,000	7,652,449	1,113,003
Senior notes	2,965,541	—	—
Tax payable	2,709,162	4,559,087	663,092
	<u>57,293,756</u>	<u>88,538,511</u>	<u>12,877,392</u>
Net current assets	<u>26,300,788</u>	<u>42,101,978</u>	<u>6,123,479</u>
Total assets less current liabilities	<u>54,577,092</u>	<u>81,556,166</u>	<u>11,861,853</u>
Non-current liabilities			
Liabilities under cross-border guarantee arrangements	—	526,335	76,552
Bank and other loans	14,191,435	11,966,970	1,740,524
Corporate bonds	5,162,449	12,980,000	1,887,863
Senior notes	5,924,103	16,764,667	2,438,320
Deferred tax liabilities	2,135,296	2,572,408	374,141
	<u>27,413,283</u>	<u>44,810,380</u>	<u>6,517,400</u>
NET ASSETS	<u>27,163,809</u>	<u>36,745,786</u>	<u>5,344,453</u>
EQUITY			
Share capital	433,828	434,041	63,129
Perpetual capital securities	2,363,346	2,363,346	343,734
Reserves	20,509,047	26,451,419	3,847,199
Equity attributable to owners of the parent	<u>23,306,221</u>	<u>29,248,806</u>	<u>4,254,062</u>
Non-controlling interests	<u>3,857,588</u>	<u>7,496,980</u>	<u>1,090,391</u>
TOTAL EQUITY	<u>27,163,809</u>	<u>36,745,786</u>	<u>5,344,453</u>

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

We are heavily dependent on the performance of and policies affecting the PRC property market, particularly in Guangdong Province

Our business and prospects depend heavily on the performance of and policies affecting the PRC property market. Any housing market downturn or policy change in the PRC generally or in the regions where we have property developments could adversely affect our business, financial condition and results of operations. Most of our property developments are located in Guangdong Province and Guangxi Province. Sales of residential property projects in Guangdong Province and Guangxi Province accounted for the majority of our revenue from sales of properties in 2017 and 2018. Going forward, we intend to maintain our focus on the property markets in Guangdong and Guangxi Provinces, while selectively increasing our presence in other markets in the PRC which we believe have high growth potential, including the Chengdu-Chongqing and Bohai Bay economic regions. As such, our business is and may continue to be heavily dependent on the continued growth of the property market in Guangdong and Guangxi Provinces and any adverse developments in the supply and demand or decline in property prices in Guangdong and Guangxi Provinces would have an adverse effect on our results of operations and financial condition. In addition, future demand for different types of residential properties is uncertain. If we fail to respond to changes in market conditions or customer preferences in a timely manner or at all, our business, financial condition and results of operations will be adversely affected.

The PRC property market is affected by many factors, including changes in the PRC's social, political, economic and legal environment, changes in the PRC government's fiscal and monetary policy, the lack of a mature and active secondary market for residential and commercial properties and the relatively limited availability of mortgage loans to individuals in the PRC. Demand for residential properties in the PRC, particularly in Guangdong Province, has grown significantly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. In particular, China's property market is affected by the recent slowdown in China's economic growth, with China's yearly real GDP growth rate decreasing from 10.6% for 2010 to 7.3% for 2014 and 6.6% for 2018. A number of factors have contributed to China's economic slowdown, including the appreciation of the Renminbi and the tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing the overheating of China's economy, controlling China's high level of inflation, and stabilizing the growth of specific sectors, including the property market. Due in large part to such control measures, including home purchase restrictions and credit tightening policies, property markets in certain cities had experienced decreases in both trade volume and sale prices in recent periods. We cannot assure you that property sales will return to past levels or that we will be able to benefit from any future growth in the property market in Guangdong Province or elsewhere in the PRC. Any further decline in property sales or decrease in property prices in the PRC generally or in the regions where we have property developments could have a material adverse effect on our business, financial condition and results of operations.

Additionally, the People's Bank of China (the "PBOC") increased the benchmark one-year lending rate three times in 2011, and subsequently decreased the benchmark one-year lending rate. On August 26, 2015, the PBOC lowered the benchmark one-year bank lending rate to 4.60%, and on October 24, 2015, the PBOC further lowered the benchmark one-year bank lending rate to 4.35%.

The benchmark one-year bank lending rates published by the PBOC in 2017 and 2018 were 4.35% and 4.35%, respectively. However, with certain changes on global market, the PBOC may further increase or decrease the benchmark one-year lending rate in the future. Increases in interest rates may increase our finance costs and make mortgage financing more expensive for our potential customers, which may in turn have a material adverse effect on our business, financial condition and results of operations. Any other adverse developments in national and local economic conditions as measured by factors such as inflation, employment levels, job growth, consumer confidence and population growth, particularly in the regions where we operate, may affect demand for our projects and would have a material adverse effect on our business, financial condition and results of operations.

The global economic slowdown and financial crisis have negatively affected, and may continue to negatively affect, our business

The global economic slowdown and turmoil in the global financial markets beginning in the second half of 2008 have resulted in a general tightening of credit, an increased level of commercial and consumer delinquencies, lack of consumer confidence and increased market volatility. The global economic slowdown has also had a negative impact on property markets and property prices in the PRC. For example:

- the economic slowdown and credit tightening measures have reduced the demand for residential and commercial properties and resulted in a reduction of property prices; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financing.

In addition, recent global market and economic conditions, including the European sovereign debt crisis, the United States credit rating downgrade, and heightened market volatility in major stock markets, have been unprecedented and challenging. These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, the willingness of potential property purchasers to purchase our properties, which may lead to a decline in the general demand for our projects and decrease in their selling prices. In addition, any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. If the global economic slowdown and financial crisis continue or become more severe than currently anticipated, our business, financial condition and results of operations could be materially and adversely affected.

We may not successfully manage our expanded operations

We have been expanding our operations in recent years and may continue expanding. We continue to focus our business on our core markets in Guangdong Province and Nanning, the largest city in Guangxi Province, where the majority of our projects are located. We may expand into new markets to seize market opportunities in both the Chinese and overseas markets as we deem appropriate in the future. However, our experience in our core markets and quick development operation model may not be readily transferable to other regions. Markets in other regions may differ from our core markets in terms of customer tastes, behavior and preferences. We will have limited ability to leverage our established brands and reputation in these new markets in the way that we have done in our core markets. Furthermore, the administrative, regulatory and tax environment in such regions may differ substantially from those in our core markets, and we may face additional expenses or difficulties in adapting to such procedures and complying with such environments. In addition, as we enter new markets, we may not have the same level of familiarity with local contractors, suppliers and other business partners, business practices and customs as we do in our core markets, and we may face higher costs and more intense competition from established property developers with experience in those markets.

If we expand into new markets, we will have to continue to improve our managerial, technical and operational knowledge and allocation of resources. To effectively manage our expanded operations, we will need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development requirements, including staff with local market knowledge. In order to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. Accordingly, we will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual obligations and reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business or face other internal control challenges (e.g., our audited financial statements for the year ended December 31, 2016 contained two qualifications). Neither can we assure you that our expansion, if any, will not adversely affect our existing operations and thereby would have a material adverse effect on our business, financial condition and results of operations.

We may not be able to obtain adequate funding or capital on commercially favorable terms for land acquisitions or property developments

The property development business in the PRC is capital intensive. During 2017 and 2018, our liquidity requirements arose principally from the acquisition of land for and development of our property development projects. During the same periods, our principal sources of funds to finance our working capital, capital expenditures and other capital requirements were bank loans, internally generated cash flows (including proceeds from the pre-sales and sales of our projects) and funds raised from capital markets, such as our offering of the Existing Notes and Corporate Bonds. In the future, we expect to continue to finance the development of our projects using such means. However, we cannot assure you that we will have sufficient cash flow available for land acquisitions or property developments or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments. In addition, we cannot assure you that we will be able to secure external financing on terms acceptable to us or at all. As of December 31, 2018, our outstanding long-term and short-term bank and other loans (excluding the Existing Notes and Corporate Bonds) were RMB11,967.0 million (US\$1,740.5 million) and RMB9,577.1 million (US\$1,392.9 million), respectively. Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors, many of which are beyond our control. The PRC government has in recent years taken a number of policy initiatives in the financial sector to further tighten lending requirements for property developers. For more information, please see the section entitled “—Risks relating to Property Development in the PRC—The PRC property market is heavily regulated and subject to PRC government policies, regulations and measures intended to discourage speculation in the property market.”

Moreover, on September 21, 2018, Guangdong Real Estate Association issued an “Emergency Notice on the Relevant Opinions on Providing the Pre-sale Permit for Commodity Houses” (《關於請提供商品房預售許可有關意見的緊急通知》), asking for opinions on the cancelation of the pre-sale system of commodity residential properties. We cannot assure you that PRC governments will continue to allow pre-sale of properties or will not impose additional or more stringent requirements on pre-sale. In the event that the PRC governments prohibit pre-sale of properties or impose additional or more stringent requirements, the property developers like us may not have sufficient cash flow for property development projects and may have liquidity problems. If we do not have sufficient cash flow from pre-sale to fund our future liquidity, pay our trade and bills payables and repay the outstanding debt obligations when they become due, we may need to significantly increase external borrowings or secure other external financing. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, prospects, financial condition and results of operations may be materially and adversely affected.

In addition, the PBOC regulates and continually adjusts the lending rates and reserve requirement ratios for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks for property developers and leveraged property buyers.

We expect that increases in interest rates and reserve requirement ratios, if any, would increase our finance costs in general. Our interest expenses on bank and other loans in 2017 and 2018 were RMB1,246.2 million and RMB1,340.0 million (US\$194.9 million), respectively. We currently do not hedge our interest rate risk. Although we may do so in the future, we cannot assure you that such hedging will be sufficient to offset our interest rate risk. Any further increases in interest rates on our bank borrowings, including as a result of interest rate increases by the PBOC, could have a material adverse effect on our business, financial condition and results of operations.

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

The Ministry of Housing and Urban-Rural Development (the “MOHURD”) and the Ministry of Land and Resources jointly issued the “Circular of Relevant Work on Strengthening the Recent Administration and Control of Housing and Land Supply” (關於加強近期住房及用地供應管理和調控有關工作的通知) dated April 1, 2017 which requires local authorities to adopt the examination system of land acquisition capital to insure the property developers acquiring land with internal funds and the property developers should be disqualified for any land bid backed by capital from questionable sources and prohibited from bidding for land within stipulated time limit. The implementation of these regulations may increase land transfer prices and require property developers to maintain a higher level of working capital.

We cannot assure you that the PRC government will not introduce other initiatives which may limit our access to capital resources or increase our finance costs. The foregoing and other initiatives introduced by the PRC government may limit our flexibility and ability to use bank loans or other forms of financing to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to business risks if our project companies fail to obtain or renew their qualification certificates

Property developers in the PRC must obtain a formal qualification certificate in order to develop property in the PRC. According to the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定), newly established developers must first apply for a temporary qualification certificate (暫定資質證書) after obtaining the business license. The validity of the temporary qualification certificate is one year and can be renewed for a maximum of two years, by which time a formal qualification certificate must have been issued. Property developers in the PRC are required to submit a valid qualification certificate when they apply for a pre-sale permit. If the newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. Experienced property

developers must also apply for renewal of their qualification certificates every two to three years in most cities, subject to an annual verification by relevant governmental authorities. It is mandatory under government regulations that developers fulfill all statutory requirements before obtaining or renewing their qualification certificates.

Qualification certificates for property developers are subject to renewal on an annual basis. Each of our project companies, with the assistance of our group office, is responsible for the annual submission of its renewal application. If any one of our project companies fails to renew its qualification certificates but continues to engage in the property development area, the local authorities will normally grant that project company, subject to a penalty of between RMB50,000 and RMB100,000, a grace period to rectify any insufficiency or non-compliance. Some of our subsidiaries do not obtain or renew their qualification certificates for the reasons that either they are not currently developing property projects or they have already completed or suspended the property projects. However, we cannot assure you that they could successfully obtain or renew their qualification certificates when they are intending to develop and operate any property project. Besides, some newly established subsidiaries are now in the process of applying for the provisional qualification certificates, which are planned to be issued before the operation of the property projects. As to the qualification certificates that have been or to be expired, we have already applied or plan to apply for the extension of validity or the renewal of the certificates, but we cannot assure you to extend in time. The failure to get the qualification certificates will limit our subsidiaries from engaging in the development and operation of property, which could have a material adverse impact on our results of operations, financial condition and business prospects.

In addition, we have other non-property development related subsidiaries which also require qualification certificates to engage in their relevant operations. These subsidiaries have obtained or are in the process of applying for the issuance or extension of such qualification certificates. We cannot assure you that our other non-property development related subsidiaries will obtain the relevant qualification certificate in a timely manner, or at all. If our project companies or our other non-property development related subsidiaries are unable to obtain or renew their qualification certificates, as applicable, they will not be permitted to engage in or continue their businesses, which could have a material adverse effect on our business and financial condition.

We may not be able to obtain land use rights certificates or other requisite government approvals or registrations for our current projects or for projects we may acquire in the future

The property development industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements provided by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, a property developer must obtain various permits, licenses, certificates and approvals from the relevant authorities at various stages of the property development process, including land use rights certificates, construction land planning permits, construction works planning permits, construction commencement permits, pre-sale permits and completion certificates. Each approval or renewal is dependent on the satisfaction of certain conditions. There have been instances where we did not obtain approvals on time and there have been some instances where certain of our project companies in the PRC were imposed administrative penalties by relevant authorities as a result of commencing construction of certain projects before obtaining construction permits or other relevant approvals. We cannot assure you that we will not encounter material delays or other impediments in fulfilling the conditions necessary for the approvals, or that we will be able to adapt ourselves in a timely and effective manner to new laws, regulations or policies that may come into effect from time to time with respect to the property development industry. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite government approvals or renewals, the schedule of development and sales of our developments could be substantially disrupted, which could materially and adversely affect our business, financial condition and results of operations.

In particular, in order to develop and sell properties in the PRC, property developers are required to obtain land use rights certificates from the relevant government authorities. The land use rights certificate in respect of a piece of land will not be issued until the developer has entered into a land grant contract with the relevant authorities, made full payment of the land premium and complied with the land use rights and any other land grant conditions.

As of the date of this offering memorandum, we have obtained the land use rights certificates for all of our projects, except in respect of Sichuan Meishan 100 Mu (四川眉山100畝), Shunde Congle 126 Mu (順德從樂126畝), Jiashan Xitang 60 Mu (嘉善西塘60畝), Guangzhou Panyu 75 Mu (廣州番禺75畝), Nanning Pingle 162 Mu (南寧平樂162畝), Nanning Qingxiu 65 Mu (南寧青秀區65畝) and Nanning Jiangnan 193 Mu (南寧江南區193畝). However, we cannot assure you that the Ministry of Land and Resources or its local branches will grant us the appropriate land use rights certificate in respect of these land parcels or any land we may acquire in the future in a timely manner, or at all, in the event of force majeure or governmental acts. If we cannot obtain land use rights certificates in respect of these land parcels or any land we may acquire in the future, we may not be able to construct, lease or sell the relevant projects which could have a material adverse impact on our results of operations, financial condition and business prospects.

We have entered into numerous agreements with various government authorities with the intention to facilitate obtaining the land use rights certificates for certain parcels of land located in China. Under relevant PRC laws and regulations, we are required to fully pay the land premium under these contracts before we will be able to obtain the relevant land use rights certificates. There are risks with respect to the enforcement of these agreements, particularly in light of their relatively long execution periods, in some cases, and potential changes in PRC government policies. There can be no assurance that PRC government policies related to our projects will not change in the future or that there will not be changes in the manner of the implementation of these agreements. Further, there can be no assurance that there will not be modifications to these agreements as to terms that are favorable to us, including changes in the price of the land use rights to the land parcel concerned. In addition, the law and practice relating to the enforcement of contracts and agreements against PRC government entities involve uncertainty, and there can be no assurance that title to the land parcels subject to these agreements will be eventually obtained. If any of these agreements is not implemented as agreed, our business, financial condition and results of operations may be materially and adversely affected.

A default under any of our lending or financing agreements could result in enforcement against the security we have granted

We have maintained a significant level of indebtedness, a substantial portion of which is primarily secured by our legal interests in various properties and buildings. As of December 31, 2017 and 2018, our total current and non-current borrowings, which included our bank and other loans (excluding the Existing Notes and Corporate Bonds), were RMB19,789.3 million and RMB21,544.1 million (US\$3,133.5 million), respectively, and our current ratio was 1.5 and 1.5, respectively, calculated by dividing our current assets by our current liabilities as of December 31, 2017 and 2018.

We cannot assure you that we will be able to generate sufficient cash flow from operations to meet our payment obligations under our current outstanding debt. If we are unable to make scheduled payments in connection with our debt and other payment obligations as they become due, we may need to re-negotiate the terms and conditions of such obligations or to obtain additional equity or debt financing, failing which we may default on such repayment or other obligations. We cannot assure you that any such renegotiation efforts would be successful or timely or that we would be able to refinance our obligations on acceptable terms or at all. If financial institutions decline to lend additional funds to us or to refinance our existing loans when they mature as a result of our credit risk or otherwise and we fail to raise financing through other means, we may breach our repayment or other obligations. In the event of a default, our lenders can enforce their rights against us, including enforcing their rights against our pledged collateral and other security under the relevant financing agreements.

We cannot assure you that we will be able to continue meeting all of our obligations under the bank and other loans. We also cannot assure you that the assets we have pledged to our lenders or trust financing companies will not be subject to enforcement actions, in which case we may lose control and ownership of a number of projects and our business, financial condition and results of operations may be materially and adversely affected.

Changes in the fair value of our investment properties may have a significant impact on our results of operations

As of December 31, 2017 and 2018, we had investment properties of RMB15,664.8 million and RMB18,338.0 million (US\$2,667.2 million), respectively. We are required to reassess the fair value of our investment properties on every balance sheet date for which we issue financial statements. Under HKFRS, gains or losses arising from changes in the fair value of our investment properties are included in our consolidated income statements in the period in which they arise. You should note that the fair value gains or losses in our investment properties represent unrealized capital gains and do not change our cash position as long as the relevant investment properties are held by us and, therefore, do not increase our liquidity in spite of the increased profit. In 2017 and 2018, our net profit margins which is based on profit for the year divided by revenue for such year and multiplied by 100% were 25.3% and 20.4%, respectively, reflecting net increase in fair value of our investment properties of RMB2,942.3 million and RMB1,740.7 million (US\$253.2 million), respectively. Our net profit margins (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate)⁽¹⁾ in 2017 and 2018 were 16.7% and 17.2%, respectively. The amount of revaluation adjustments has been, and continues to be, subject to market fluctuations. We cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the previous levels or at all, or that the fair value of our investment properties will not decrease in the future. In addition, the fair value of our investment properties may materially differ from the amount we will receive in actual sales of the investment properties. Any significant decreases in the amount we receive in actual sales of our investment properties would materially and adversely impact our results of operations.

The illiquidity of property investments and the lack of alternative uses for investment properties could limit our ability to respond to adverse changes in the performance of our properties

As at December 31, 2018, we had 31 investment properties with a total GFA of approximately 494,397 sq.m. As of December 31, 2017 and 2018, the fair value of our investment properties was RMB15,664.8 million and RMB18,338.0 million (US\$2,667.2 million), respectively. We expect to increase our investment property portfolio in the future. Any form of real estate investment is illiquid and, as a result, our ability to sell our investment properties in response to changing economic, financial and investment conditions is limited. We also cannot predict the length of time needed to find purchasers to purchase such investment properties. In addition, we may also need to incur capital expenditure to manage and maintain our properties, or to correct defects or make improvements to these properties before selling them. We cannot assure you that financing for such expenditures would be available when needed, or at all.

Furthermore, aging of investment properties, changes in economic and financial conditions or changes in the competitive landscape in the PRC property market may adversely affect the amount of rentals and revenue we generate from, as well as the fair value of, our investment properties. However, our ability to convert any of our investment properties to alternative uses is limited as such conversion requires extensive governmental approvals in the PRC and involves substantial capital expenditures for the purpose of renovation, reconfiguration and refurbishment. We cannot assure

⁽¹⁾ The calculation of net profit margin (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate) is based on profit for the year (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate) divided by revenue for such year and multiplied by 100%.

you that such approvals and financing can be obtained when needed. These and other factors that impact our ability to respond to adverse changes in the performance of our investment in properties may adversely affect our business, financial condition and results of operations.

A deterioration in our brand image could adversely affect our business

We regard the “Logan” brand name and the related trademarks and devices we use as important assets to our business. Any negative incident or negative publicity concerning us, our Chairman, directors and officers or our property developments could adversely affect our reputation and business. Brand value is based largely on subjective consumer perceptions and can be damaged even by isolated incidents that degrade consumer trust. Consumer demand for our products and our brand value could diminish significantly if we fail to preserve the quality of our products, or fail to deliver a consistently positive consumer experience in each of our complexes, or if we are perceived to act in an unethical or socially irresponsible manner. In addition, any unauthorized use or infringement of our brand name may impair the value we have built in our brand name, damage our reputation and materially and adversely affect our business, financial condition and results of operations.

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

We may, from time to time, be involved in disputes and claims with various parties involved in the development and the sales of our properties, including contractors, suppliers, construction companies, business or joint venture partners and purchasers. These disputes and claims as well as media coverage and public statements that assert some form of inappropriateness in our products and services may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management’s attention from our core business activities. Purchasers of our properties may take legal action against us if our developed properties are perceived to be inconsistent with our representations and warranties made to such purchasers. In addition, we may have compliance issues with regulatory bodies in the course of our operations, in respect of which we may face administrative proceedings and unfavorable decisions that may result in liabilities and cause delays to our property developments. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, financial condition and results of operations.

We may be subject to fines and sanctions in relation to our non-compliance with certain PRC laws and regulations from time to time and may face significant liabilities or damage our reputation as a result

We may be subject to fines and sanctions in relation to our non-compliance with certain PRC laws and regulation. There have been instances where we have been fined administratively in the past for selling or marketing practices that were considered in breach of relevant regulations. We cannot assure you that any disputes with parties involved in the development and sale of our properties in the future would not have a material adverse effect on our business, financial condition and results of operations or have a negative impact on our reputation. Any failure or alleged failure by us or any of our directors, officers or other agents to fully adhere to the PRC or other applicable laws, or any investigation in relation to such failure or alleged failure by any regulatory body, could also materially and adversely affect our reputation, business, financial condition and results of operations.

We guarantee the mortgage loans provided to our customers and consequently are liable to the mortgagee banks if our customers default on their mortgage payments

As we pre-sell properties before their actual completion of construction, in accordance with industry practice, banks require us to guarantee our customers’ mortgage loans. Typically, we guarantee mortgage loans taken out by our customers until we complete the development of the relevant properties and the property ownership certificates and certificates of other interests with

respect to the relevant properties are delivered to our customers followed by the completion of the mortgage registration procedures. If a purchaser defaults on a mortgage loan, we may have to repurchase the underlying property by paying off the mortgage loan. If we fail to do so, the mortgage bank may auction the underlying property and recover any shortfall from us since we are the guarantor of the mortgage loans. In line with industry practice, we do not conduct any independent credit checks on our customers and rely on the credit evaluations of mortgage banks.

As of December 31, 2018, our outstanding guarantees in respect of our customers' mortgage loans were RMB23,975.5 million (US\$3,487.1 million). Should any material default occur and if we are called upon to honor our guarantees, our business, financial condition and results of operations could be adversely affected.

We may not be able to obtain land that is suitable for property development or maintain our land bank at a cost comparable to our historical cost level

To maintain and grow our business in the future, we will be required to continually replenish and increase our land bank with suitable land for development at commercially acceptable prices. Our ability to identify and acquire suitable land is subject to a number of factors, some of which are beyond our control. We must identify land that has potential for future development ahead of our competitors. However, we cannot assure you that the land identified and acquired by us will be suitable for development or offer the return we desire.

During 2017 and 2018, we primarily acquired land through participation in the government public tender, auction or listing-for-sale land grant process and through the acquisition of property development companies or land use rights from other developers. The availability and price of land sold depend on factors beyond our control, including government land policies and competition. The PRC government and relevant local authorities control the supply and price of new land parcels and approve the planning and use of such land parcels pursuant to specific regulations. All these measures further intensify the competition for land in China among property developers. As we expect our cost of acquiring land use rights to further increase in the future, our gross profit margin and our ability to maintain our land bank at a cost comparable to our historical cost level may be materially and adversely affected. If we fail to obtain suitable land for development at commercially acceptable prices that allow us to achieve reasonable returns upon sales of properties, the benefits we have enjoyed from having a land bank comprising land we acquired at competitive prices may not recur in the future, and our business, financial condition and results of operations will be materially and adversely affected as a result.

We may not be able to successfully complete projects that we are currently developing, or plan to develop, in a timely manner or at all

At any point in the planning or development of a project, we could face, among other things, regulatory changes, financing difficulties, inabilities or difficulties in obtaining the required government approvals or government-mandated changes in our property development business, any of which could delay, increase the cost of, or prevent the completion of any such projects. We may also delay or revise our plans for property developments due to a variety of factors, including changes in market conditions, a shortage or increase in the prices of construction materials, equipment or labor, labor disputes or disputes with our contractors and subcontractors. We may commit significant time and resources to a project before determining that we are unable to complete it successfully, which could result in a loss of some or all of our investment in such project. If the delivery delay extends beyond the contractually specified period, or if the actual GFA of a completed property delivered to a purchaser deviates by more than 3.0% from the GFA originally indicated in the property sale and purchase contract, the purchaser may terminate the proposed sale and purchase contract, reclaim the deposit and claim damages. If we are unable to complete projects as planned, this may materially and adversely affect our business, financial condition and results of operations.

In addition, we have built and continue to build large-scale property development projects. Large-scale property development projects in general require substantial capital expenditures and we may incur significant costs in order to acquire the land and develop properties for these large-scale projects. We cannot assure you that our existing or future large-scale developments will be successful or that any such development will not encounter difficulties that may result in significant losses to our investment in such developments or costs relating to damages to purchasers, any of which could materially and adversely affect our business, financial condition and results of operations.

We are exposed to risks relating to pre-sales of properties

We depend on cash flows from pre-sales of properties as an important source of funding for our property projects. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sales of properties and may use pre-sales proceeds to finance only the developments wherein such properties are located. In the past several years, a number of government authorities and officials have proposed to limit or abolish the pre-sales of properties. These recommendations have not been adopted by the PRC government and have no enforceability. However, we cannot assure you that the PRC government will not ban or implement further restrictions on the pre-sales of properties, such as imposing additional conditions for pre-sale permits or further restrictions on the use of pre-sales proceeds. Any such measure will adversely affect our cash flows and liquidity and cause difficulty for financings of our property development business.

We may be liable to our customers for damages if we do not deliver individual property ownership certificates in a timely manner

Under current laws and regulations, we are required to submit the requisite registration applications in connection with our property developments, including the land use rights certificate, construction land planning permit, construction works planning permit, construction commencement permit and completion certificate, to the local house registration authority after the relevant properties are completed and apply for the general property ownership certificates in respect of the properties. The house registration authority shall record the registration information or reject the registration within 30 business days. We cannot assure you that we will not experience any unanticipated delays in obtaining such ownership certificates. In the case that a late delivery of any individual property ownership certificate is due to delays that are deemed to be caused by us, the purchaser would be able to terminate the property sales and purchase contract, reclaim the payment and claim damages, any of which could materially and adversely affect our business, financial condition and results of operations.

Since we recognize our sales revenues only upon delivery of the properties sold, our operating results depend on the timing of completion of our projects and may not be representative of our future performance

We experienced significant revenue growth in 2017 and 2018. In 2017 and 2018, our revenue was RMB27,689.7 million and RMB44,136.9 million (US\$6,419.4 million), respectively, and we had net profit attributable to our equity shareholders of RMB6,527.4 million and RMB8,288.4 million (US\$1,205.5 million), respectively. Since we mainly recognize proceeds from the sales of a property as revenue only upon the delivery of the property, our revenue and profit during any given period is affected by the quantity of properties delivered during that period. The quantity of properties delivered is largely a result of our property delivery schedule and may not be indicative of the actual demand for our properties or sales achieved during that period. Our revenue and profit during any given period generally reflect property investment decisions made by purchasers at some significant time in the past, typically at least in the prior fiscal period. Furthermore, fluctuations in our operating results may also be caused by other factors, including fluctuations in expenses such as land premiums, development costs, administrative expenses, selling and marketing expenses and changes in market demand for our properties. As a result, we believe that our operating results for any period are not necessarily indicative of results that may be expected for any future period, nor can we assure you that we will grow at a high rate, or at all, or that we will not experience a decrease in revenue. In

addition, the cyclical property market of the PRC affects the optimal timing for the acquisition of land, the plan of development and the sales of properties. This cyclicity, combined with the lead time required for the completion of projects and the sales of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from period to period.

We rely on independent contractors and other third parties for construction, labor, engineering subcontracting, design, property management, sales and other key aspects of our property development business

While we generally act as general contractor for our property development projects and conduct most of our engineering, design, sales management, marketing and customer service in-house, we rely on independent contractors to provide certain services relating to our projects, including construction, labor, engineering subcontracting, design, property management and sales. We cannot assure you that the services rendered by any of these independent contractors will always be satisfactory or meet our requirements for quality and safety. If the performance of any independent contractor is unsatisfactory, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, we may incur additional costs due to a contractor's financial or other difficulties that may affect their ability to carry out the work for which they have been retained. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

If the performance of any of such independent contractors or third parties is not satisfactory to our customers, our reputation may suffer, which may adversely affect our business, financial condition and results of operations. In addition, a serious dispute with such independent contractors or third parties that we are unable to resolve could result in costly legal proceedings and therefore have a material adverse effect on our business, financial condition and results of operations. Furthermore, an increase in the cost of labor used by our contractors and other third parties engaged in our business may eventually be passed on to us in the form of higher contract fees at the time new contracts are entered into. Finally, because of our reliance on third parties, we have limited control over the costs related to the services they provide.

Our profit margin is sensitive to fluctuations in construction costs

Construction costs constitute one of the main components of our direct costs. Construction costs encompass all costs for the design and construction of a project, including payments to third-party contractors, costs of construction materials, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads and pipelines. Historically, construction material costs, especially the costs of steel and concrete, have been the principal driver of the construction costs of our property development projects. Construction costs may fluctuate as a result of the price volatility of construction materials such as steel and concrete. We currently do not, and do not expect to in the future, engage in commodities hedging activities. In line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), we will be required to re-negotiate existing construction contracts to top up payments to, or receive refunds from, the contractors, depending on the price movement. Our profit margin is sensitive to changes in the market prices for construction materials and, as a result, our profit margins may be adversely affected.

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

We have developed certain projects jointly with other entities through joint ventures or cooperation agreements and may choose to develop projects through such arrangements in the future. See the section entitled "Business—Our Property Projects—Description of Our Projects."

Our joint venture partners or project development partners may:

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

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

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

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

We may suffer losses and be subject to liabilities that are not sufficiently covered, or covered at all, by insurance

We do not maintain insurance coverage on our properties developed for sale other than with respect to those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. We also do not require the construction companies we engage to maintain insurance coverage on our properties under construction. We cannot assure you that we will not be sued or held liable for damages due to liability from any related tortious acts. Moreover, there are certain losses for which insurance is not available in the PRC on commercially practicable terms, such as losses suffered due to business interruptions, earthquakes, typhoons, flooding, war or civil disorder. If we suffer from any such losses, damages or liabilities in the course of our operations and property development, we may not have sufficient funds to cover any related losses, damages or liabilities or to repair, replace or reconstruct any property developments that have been damaged or destroyed. Any payment we make to cover related losses, damages or liabilities could have a material adverse effect on our business, financial condition and results of operations.

PRC tax authorities may challenge the basis on which we calculate our LAT obligations

Under PRC tax laws and regulations, our income from the sales of land use rights and buildings or related facilities on such land is subject to LAT. LAT is payable at progressive rates ranging from 30% to 60% of the appreciation in value, representing the balance of the proceeds received on such sales after deducting certain items, including payments made for the acquisition of land use rights, direct costs and expenses of the development of the land and construction of the buildings and structures tax related to the transfer of land use rights and properties, and other deductions prescribed by the Ministry of Finance. An exemption from payment of LAT may be available if (i) the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law, or (ii) the land and properties are recalled and requisitioned by the PRC government pursuant to applicable law for construction purposes.

On December 28, 2006, the State Administration of Taxation issued the Notice on the Relevant Issues on the Settlement Management of Land Appreciation Tax on Real Estate Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》). This Notice came into effect on February 1, 2007 and provided further clarity on when LAT becomes payable with respect to real estate development projects. First, the Notice specifies that taxpayers are required to settle LAT for each real estate project developed, or if the project is developed in stages, for each stage of the project. Second, it provides that LAT will be imposed on taxpayers upon the occurrence of the following events: (i) when a real estate development is completed and completely sold; (ii) when an unfinished real estate development project without the final accounting of revenue and expenditure is transferred as a whole to a third party; or (iii) when the taxpayer's land use right is directly transferred. Finally, it provides that LAT may be imposed on taxpayers upon the occurrence of the following additional events: (i) where a real estate development that has been completed and its transfer is approved, if the area transferred is greater than 85% of the total saleable area of the development, or, if the area transferred is less than 85%, where the retained area is leased or used by the developer; (ii) where the sale of a real estate development has not been finished after three years from the date that the sales or pre-sales permit was obtained; (iii) where a taxpayer applies to write off its tax registration but has not yet settled LAT; or (iv) where there are other circumstances as prescribed by the provincial tax authorities.

We have estimated and made full provisions for LAT in accordance with the applicable requirements set forth in the relevant PRC tax laws and regulations. Our provision for LAT for 2017 and 2018 was RMB1,454.4 million and RMB1,731.9 million (US\$251.9 million), respectively. Our current provisions for LAT are based on our management's best estimates according to their understanding of the requirements discussed above. However, actual LAT liabilities are subject to determination by the tax authorities upon the completion of the property development projects and PRC tax authorities may not agree with the basis on which we have calculated our LAT obligations. There can be no assurance that our current provisions for LAT are adequate or that the final outcome will not be different from the amounts initially recorded. In the event that we are required to settle any or all unpaid LAT, our cash flow and results of operations during the related period may be adversely affected.

We depend heavily on the continued services of our founder and Chairman, Mr. Kei Hoi Pang

Although Ms. Kei Perenna Hoi Ting is the ultimate shareholder of our Company, she has declared that the ultimate control over all major affairs of our Company is vested in Mr. Kei Hoi Pang (formerly known as Mr. Ji Haipeng), our founder and Chairman. For a more detailed description of Ms. Kei's declaration, see the section entitled "Principal Shareholders." As a result, our success and growth depends on the continued services of Mr. Kei, who has 22 years of management experience in the PRC property development industry and in-depth knowledge of various aspects of property development and investment, as well as in highway, infrastructure and urban development. In addition, although Mr. Kei is covered by the general accidental injury and illness insurance we provide to our senior management, we have not taken out key man insurance for Mr. Kei. Competition for qualified and experienced personnel is intense in the property development

sector and the pool of qualified candidates is very limited. The departure of Mr. Kei and any failure to find suitable replacements could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our controlling shareholders are able to exercise substantial influence over our corporate policies and direct the outcome of corporate actions

As of the date of this offering memorandum, approximately 77.66% of our outstanding shares were beneficially owned by our controlling shareholders. Subject to compliance with applicable laws, by maintaining such ownership, our controlling shareholders are able to exercise substantial influence over our corporate policies and our business, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In particular, the strategic goals and interests of our controlling shareholders may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. The interests of our controlling shareholders may differ from those of the holders of the Notes. We cannot assure you that our controlling shareholders will act completely in the interests of the holders of the Notes or that possible conflicts of interest will be resolved in favor of the holders of the Notes.

If our completed property developments are not in compliance with the relevant land grant contracts, construction land planning permits, construction works planning permits or construction commencement permits, we will be subject to additional payments or be required to take corrective measures to cure such non-compliance

The local government authorities inspect our property developments after completion and, if the developments are in compliance with the relevant laws and regulations, issue us completion certificates or other comparable documents, based upon which we are able to deliver the completed properties to our purchasers. If, for any reason, the total constructed GFA of a property development exceeds the amount of GFA authorized in the relevant land grant contract, construction land planning permit, construction works planning permit or construction commencement permit, or if the completed property contains built-up areas that do not conform to the construction land planning permit, construction works planning permit or construction commencement permit, we may be required to make additional payments or take corrective measures with respect to such non-compliant areas before we are able to obtain a completion certificate for the property development. If we fail to obtain the completion certificates or other comparable documents due to such non-compliance, we will not be able to deliver the relevant properties or recognize the revenues from the relevant pre-sold properties and may also be subject to liabilities under the sales contracts. We cannot assure you that the local government authorities will not find that the total constructed GFA or built-up areas of our existing projects under development or any future property developments exceed the relevant authorized GFA or are otherwise not in compliance with the relevant land grant contracts, construction land planning permits, construction works planning permits or construction commencement permits upon completion of our property development.

We may be subject to penalties and our land may be repossessed by the PRC government if we do not comply with the terms of our 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 terms relating to payment of land premiums, designated use of land, time of commencement and completion of development), the relevant government authorities may issue a warning to or impose a penalty on the property developer, or may even repossess the land. Any violation of the terms of the land grant contract may also restrict a developer's ability to participate, or prevent it from participating, in future land bidding. Specifically, under current PRC laws and regulations, if we do not commence development for more than one year from the commencement date of the construction and development work as agreed upon and stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice to us and impose an idle land fee of 20% of the land premium. If we do not commence development for more than two

years from the commencement date of the construction and development work as agreed upon and stipulated in the land grant contract, the land may be subject to repossession by the PRC government without compensation unless the delay in development is caused by government actions, force majeure events or necessary preparatory work. Moreover, even if the commencement of land development is in conformity with the land grant contract, the land will be treated as idle land if (i) the developed area of land is less than one-third of the total area of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract and if (ii) the suspension of the development of the land exceeds one year in time. Current measures in place require the competent land authorities not to accept any application for new land use rights or process any title transfer transaction, mortgage transaction, lease transaction or land registration application in respect of any idle land before completion of the required rectification procedures. We cannot assure you that circumstances leading to the repossession of land or delays in the completion of a property development will not arise in the future. If our land is repossessed, we will not be able to continue our property development on the forfeited land, recover the costs incurred for the initial acquisition of the repossessed land or recover development costs and other costs incurred up to the date of the repossession.

There is no assurance that certain current ancillary facilities will continue to provide services to the owners or users of our property developments

The ancillary facilities within our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thus offering a better living environment to the owners and users of our properties. However, we do not operate or manage some of the ancillary facilities, such as schools and hospitals. We cannot assure you that these facilities will continue to operate and provide services in our residential communities. In the event that these facilities cease to operate in our residential communities, our properties may become less attractive and competitive and this may adversely affect the value of our properties.

Potential liability for environmental problems could result in substantial costs

We are subject to a variety of laws and regulations concerning the protection of the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. Compliance with environmental laws and conditions may result in delays in development, may cause us to incur substantial compliance and other costs and could prohibit or severely restrict project development activity in environmentally sensitive regions or areas. As required by PRC laws and regulations, we must undertake an environmental assessment with respect to each project we develop and submit an environmental impact assessment report to the relevant governmental authorities for approval before commencing construction. It is possible that there are potential or hidden material environmental liabilities of which we are unaware, which may have a material adverse impact on our business. In addition, we cannot assure you that our operations will not result in environmental liabilities or that our contractors will not violate any environmental laws and regulations in their operations that may be attributable to us.

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

We are a holding company incorporated in the Cayman Islands. Under the Corporate Income Tax Law (企業所得稅法) (the "CIT Law") enacted by the Standing Committee of the National People's Congress on March 16, 2008, which took effect on January 1, 2008, and was amended effective from February 24, 2017 and the implementation rules of the CIT Law which took effect on January 1, 2008, enterprises established outside the PRC whose "*de facto* management bodies" are located in China are considered "resident enterprises" for PRC tax purposes. The implementation rules define the term "*de facto* management body" as a management body that exercises full and

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

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

Although it is unclear under PRC tax law whether we have a “*de facto* management body” located in China for PRC tax purposes, we currently take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for CIT Law purposes, we would be subject to the PRC corporate income tax at the rate of 25% on our worldwide income. Furthermore, we may be obligated to withhold PRC income tax at a rate of 10% on payments of interest and redemption premium on the Notes to investors that are non-resident enterprises, because the interest and redemption premium may be regarded as being derived from sources within the PRC. The tax rate may be reduced to 7% in the case of investors that are non-resident enterprises located in Hong Kong that are the beneficial owners of the income for purposes of the double taxation treaty between Hong Kong and the PRC. In the case of non-resident individual holders of Notes, the tax may be withheld at a rate of 20%. Further, if we were treated as a PRC resident enterprise, any gain realized by a non-resident investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a 10% PRC tax in the case of non-resident enterprises or 20% in the case of non-resident individuals. If we are required to withhold PRC tax (including VAT) from interest payments on the Notes, we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holders of the Notes of such amounts as would have been received 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 an adverse effect on our financial condition. In addition, if we fail to withhold such amounts, we may be subject to fines and other penalties.

Our investments in the PRC and our overseas projects are subject to the PRC government’s control over foreign investment in the property sector and foreign exchange and capital outflow policies.

The PRC government has in the past imposed restrictions on foreign investment in the property sector to curtail the overheating of the property sector by, among other things, increasing the capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons. The Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC (關於進一步加強規範外商直接投資房地產業審批和監管的通知) was jointly issued by the Ministry of Commerce (“MOFCOM”) and SAFE on May 23, 2007 and amended on October 28, 2015, which, among other things, provides that:

- foreign investment in the property sector in the PRC relating to high-end properties should be tightly controlled;
- prior to obtaining approval for the establishment of foreign-invested real estate enterprises, either (i) both the land use rights certificates and housing title certificates should be obtained, or (ii) contracts for obtaining land use rights or housing titles should be entered into;

- foreign-invested real estate enterprises approved by local authorities shall immediately register with MOFCOM; and
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not handle foreign exchange settlements of capital account items for those foreign-invested real estate enterprises which have not completed their filings with MOFCOM.

In June 2008, to strengthen regulation of foreign-invested real estate enterprises, MOFCOM issued the “Notice Regarding Completing the Registration of Foreign Investment in the Real Estate Sector” (關於做好外商投資房地產業備案工作的通知), which is in effective in July, 2008. According to this notice, when a foreign invested real estate enterprise is established or increases its registered capital, the provincial (or municipal) branch of MOFCOM is required to verify all filing materials regarding such foreign-invested real estate enterprise and to make a report to the national level of MOFCOM. This notice also requires that each foreign-invested real estate enterprise undertake only one approved property project. In November 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into the Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which reiterated these limitations on foreign-invested real estate enterprises. On June 24, 2014, MOFCOM and SAFE jointly issued the Circular on Improving the Record-filing for Foreign Investment in Real Estate (關於改進外商投資房地產業備案工作的通知), effective on August 1, 2014. According to this circular, the provincial branch of MOFCOM, instead of MOFCOM, will be in charge of the filing work of the foreign-invested real estate enterprises. On November 6, 2015, MOFCOM and SAFE jointly issued the “Circular on Further Improving the Record-filing for Foreign Investment in Real Estate”(關於進一步改進外商投資房地產業備案工作的通知). According to this circular, the publication procedure of record-filing in MOFCOM website has been cancelled.

Restrictions imposed by the PRC government on foreign investment in the property sector may affect our ability to make further investments in our PRC subsidiaries and as a result may limit our business growth and have an adverse effect on our business, financial condition and results of operations.

The PRC government has implemented restrictions on the ability of PRC property developers to obtain offshore financing which could affect our ability to deploy the funds raised in the offering in our business in the PRC

On May 23, 2007, MOFCOM and SAFE jointly issued the “Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC” (關於進一步加強規範外商直接投資房地產業審批和監管的通知), which was amended on October 28, 2015. On April 28, 2013, SAFE issued the “Notice Regarding Promulgation of Administrative Measures on Foreign Debt Registration” (國家外匯管理局關於發佈《外債登記管理辦法》的通知), which became effective on May 13, 2013 and was amended on May 4, 2015, and contains an appendix named the Operating Guidelines for Foreign Debt Registration Administration (外債登記管理操作指引). These notices indicate that SAFE will no longer process foreign debt registrations or foreign debt applications for the settlement of foreign exchange submitted by real estate enterprises with foreign investment that obtained authorization certificates from and registered with MOFCOM on or after June 1, 2007. These regulations effectively prohibit us from injecting funds into our PRC project companies by way of shareholder loans. Without the flexibility to transfer funds to PRC subsidiaries as loans, we cannot assure you that the dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Bonds, or on the maturity date to pay the principal of the outstanding Bonds.

Further, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy in the PRC, or that prevent us from deploying in the PRC, the funds raised outside China.

According to Circular on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance (關於進一步推進外匯管理改革完善真實合規性審核的通知) (“Circular 3”), issued by SAFE on January 26, 2017, enterprises are permitted to directly or indirectly transfer proceeds from overseas loans guaranteed by an onshore enterprise for onshore use by loaning the proceeds to an onshore enterprise or using the proceeds to make investments in an onshore enterprise’s capital or securities. Whether Circular 3 applies to the real estate industry, however, is presently unclear and subject to SAFE’s subsequent practice.

We may be adversely affected by inaccurate, false or negative media coverage

From time to time, we and our directors, officers and other affiliates may be the subject of media coverage on the development history, current business and future trends of major PRC property developers and other matters. Such media reports are often not authorized by us, not substantiated, and may contain inaccurate or false information about us, our directors, officers and other affiliates, or may present information about us, our directors, officers and other affiliates in a negative light. Such inaccurate, false or negative media coverage may adversely affect our reputation, and as a result our business and results of operations may be negatively affected. To the extent that information contained in such media coverage is inconsistent with the information contained in this offering memorandum, investors should not rely on such inconsistent information, and should only rely on the information contained in this offering memorandum to make investment decisions about us.

RISKS RELATING TO PROPERTY DEVELOPMENT IN THE PRC

The PRC property market is heavily regulated and subject to PRC government policies, regulations and measures intended to discourage speculation in the property market

As a property developer in the PRC, we are subject to extensive government regulation in many aspects of our operations and are highly susceptible to changes in the regulatory measures and policy initiatives implemented by the PRC government. Over the past few years, property developers and investors have invested heavily in the PRC, raising concerns that the property market had started to overheat. In response to concerns over the scale of the increase in property investment, the PRC government has from time to time introduced policies intended to curtail the overheating of the PRC property market, including:

- strictly enforcing laws and regulations relating to idle land;
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibiting commercial banks from lending funds to property developers with an internal capital ratio of less than a certain prescribed percentage;
- restricting PRC commercial banks from extending loans for the development of luxury residential properties;
- restricting property developers from using borrowings obtained from any local banks to fund property developments outside that local region;
- restricting the ability of property developers to raise funds via foreign debt;
- restricting PRC commercial banks from granting loans to property developers for the purpose of paying land premiums; and
- requiring property developers to promptly and fully pay land premiums before becoming eligible to receive the relevant land use rights certificate.

In particular, the PRC government had also introduced the following policies, among others, to specifically control the growth of the residential property market:

- limiting the maximum amount of monthly mortgage and total monthly debt service payments of individual borrowers;
- suspending land supply for villa developments and restricting land supply for high-end developments, while mandating a minimum land supply for affordable housing;
- imposing a business tax levy on the sales proceeds from secondary sales, based on the length of the holding period and type of property;
- requiring the strict enforcement of a 20% individual income tax on profits from sales of owner-occupied houses;
- increasing the minimum down payment on the purchase price of the residential property of a family;
- raising pre-sale thresholds for commodity housing;
- strengthening the government's management of financing activities by property enterprises which have engaged in certain illegalities or irregularities;
- limiting the purchase of and mortgage loans for residential properties based on a purchaser's place of residence and number of residential properties owned;
- continuing the enforcement of purchase restrictions imposed on commodity housing;
- tightening the availability of individual housing loans in the property market to individuals and their family members with more than one residential property;
- giving local branches of the PBOC more latitude in raising the down-payment rate and mortgage rate for the purchase of a second residential property in cities where housing prices are increasing at an excessively high rate;
- limiting the availability of individual housing provident fund loans for the purchase of second (or further) residential properties by laborers or their family members;
- requiring property developers to make public the sales and pre-sale price of its units for sales within a certain time period and conduct sales strictly in accordance with this stated price; and
- requiring financial institutions to prioritize mortgage applications for ordinary commodity housing construction projects where small to medium-sized housing units constitute 70% or more of the total units in such construction projects so long as credit extension conditions are satisfied.

Following a downturn in the PRC property market in late 2008 and early 2009, property prices and transaction volume began to increase sharply in the second half of 2009. This has led to the imposition of further regulations and policies by the PRC government aimed at slowing down the property market. These measures resulted in downward pricing pressures on the PRC property market starting in the second half of 2011 and low transaction volumes during the first half of 2012.

As a result of the downturn in the PRC property market in 2014 and 2015, some of the above restrictive policies have been amended or terminated by the PRC government. Home-purchase restrictions in most second and third tier cities have been canceled, the minimum down-payment on the purchase of the residential property has been reduced, and lending rates of banks have been lowered.

However, starting from October 2016, multiple PRC local governments and regulators introduced measures to cool down the PRC's property market, such as strengthening the requirements on land transfer, raising down-payment requirements for first and second residential property purchasers and tightening buyer eligibility criteria for real estate purchases. The recent tightening measures adopted in Shenzhen, Foshan and Zhuhai, include, among other things:

- increase the guarantee payment for the bidding of the land to more than 50% of the land base price;
- require the down-payment for the first or second property purchasers to be not lower than 30% or 40% of the purchase price;
- suspend the sale of new commodity apartments or the properties below certain square footage to local and non-local resident families which have reached their respective limits for property purchase;
- demand the non-local resident families to furnish the evidence of personal income tax or social insurance payment for a required period when purchasing the second commodity apartment or the properties below certain square footage;
- require developers of newly completed properties to file the selling price to local pricing supervisory authorities, and the authorities have discretion to reject the filing if the developers refuse to adjust the price when it materially exceeds the prevailing price of the surrounding properties or the properties developed in previous construction phase by such developers.

As a considerable portion of the Company's land bank are located in these cities, these recent tightening measures and any other possible tightening measures in the future may have material and adverse impact on the Company's contracted sales, average selling price, land acquisition cost and development cost, and the Company's overall business and financial results.

We cannot assure you that the PRC government will not implement tightening measures to restrain the PRC property market at the national, provincial, municipal and local levels in the future, in which case the declining trends in transaction volume and selling prices of properties in the PRC may continue or further intensify. As a result, our business, financial condition and results of operations may be, and or may continue to be, materially and 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, 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 may be increased from 5% (the current business tax rate) to 11%. Unlike business tax, the VAT will only be imposed on added value, which means the input tax incurred from the deductible land prices can be offset from our output tax. However, details of concrete measures are still being formulated in accordance with Circular 36. The comprehensive impact of the new VAT regime on our tax burden, our revenues and results of operations still remains uncertain.

The PRC government has adopted various measures to regulate the property development industry and may adopt further restrictive measures in the future

In addition to its policies and measures implemented to address housing prices, the PRC government has implemented a number of regulations and measures governing the property development industry. In July 2006, the MOHURD, the National Development and Reform Committee (“NDRC”), the PBOC, the State Administration for Industry and Commerce, or SAIC, and the State Administration of Foreign Exchange, or SAFE, issued *Opinions on Regulating the Entry and Administration of Foreign Investment in the Real Estate Market* (關於規範房地產市場外資准入和管理的意見) which was amended on August 19, 2015, which impose significant requirements on foreign investment in the PRC real estate sector. For instance, to transfer the equity in or the project of a foreign-invested real estate enterprise, it shall be examined and approved by the authority in charge of commerce and other authorities strictly in accordance with the provisions of the relevant laws, regulations and policies. According to Notice of MOFCOM and the State Administration of Foreign Exchange on Further Improvements to Filing for Real Estate Investments of Foreign Investors (商務部、國家外匯管理局關於進一步改進外商投資房地產備案工作的通知), effective from November 6, 2015, the local Bureau of Commerce shall approve the establishment and change of foreign-invested real estate enterprises, and fill in the relevant information of real estate projects in the MOFCOM’s foreign investment general management information system.

On July 10, 2007, SAFE issued the *Notice on Publicity of the List of the 1st Group of Foreign-Invested Real Estate Projects filed with MOFCOM* (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) (Circular No. 130), under which some notices will have a significant impact on offshore financings of foreign invested real enterprises: an foreign invested real enterprises which has obtained a certificate (including new establishment and registered capital increase) and filed with MOFCOM after June 1, 2007 may not incur foreign debt or convert loans in foreign currency into RMB; and an foreign invested real enterprises which obtains a certificate after June 1, 2007 but fails to file with MOFCOM after June 1, 2007, may not conduct a foreign exchange registration nor a foreign exchange conversion of its registered capital.

Though Circular No. 130 has become invalid since the issuance of The Notice of the State Administration of Foreign Exchange on Issuance of the Provisions on the Foreign Exchange Administration of Domestic Direct Investment of Foreign Investors and the Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) on May 10, 2013 (“Circular No. 21”), The Notice of SAFE on Issuance of Administrative Measures on Registration of Foreign Debts (國家外匯管理局關於發佈《外債登記管理辦法》的通知) (“Circular No. 19”) issued on April 28, 2013 and partly amended by the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) (Huifa [2015] No. 20) issued by SAFE on May 4, 2015, states that If an foreign invested real enterprise fails to acquire a land use right certificate, or to have its development project fund reach 35% of the total investments to the project, it shall not borrow any foreign debt from abroad, nor shall the foreign exchange bureau implement the registration of its foreign debt or approve the conversion of foreign debt into RMB. These notices may strictly limit our capacity to raise funds offshore for the purpose of funding our PRC subsidiaries by means of increasing their registered capital or extending shareholders’ loans.

On December 24, 2011, MOFCOM and the NDRC jointly issued the *Catalogue of Industries for Guiding Foreign Investment (2011 Revision)*, or the Catalogue 2011, which took effect on January 30, 2012. Consistent with the provisions of a prior catalogue, the Catalogue 2011 restricts the

construction and operation of high-end residential and commercial properties by foreign investment entities. Further, on March 10, 2015, the *Catalogue of Industries for Guiding Foreign Investment (2015 Revision)*, or Catalogue 2015, was issued and supersedes the Catalogue 2011. Compared with its 2011 revision, the development of tracts of land, the construction and operation of high-end hotels, office buildings, international conference centers, and real estate intermediary/agency business have been removed from the category under which foreign investment is restricted, with the construction and operation of large-scale scheme parks remaining in the category. The latest version of the Catalogue of Industries for Guiding Foreign Investment is of 2017 Revision 《外商投資產業指導目錄(2017年修訂)》 (Decree No. 4 of NDRC and MOFCOM) jointly promulgated by MOFCOM and NDRC on June 28, 2017, and executed on July 28, 2017. The latest version has further removed the construction and operation of large-scale scheme parks.

The PRC property market has been cyclical and our property development activities are susceptible to significant fluctuations

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major provinces and cities in China, including Guangdong Province, in the early 1990s culminated in an over-supply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Since the late 1990s, residential property prices and the number of residential property development projects have gradually increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major PRC provinces such as Guangdong Province and cities therein have experienced rapid and significant growth. The risk of property over-supply has increased in recent years in certain parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, together with the effect of the PRC government policies to curtail the overheating of the property market, property prices may fall significantly and our revenue and results of operations will be adversely affected. We cannot assure you that the problems of over-supply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect our business and financial condition. The PRC property market is also susceptible to the volatility of the global economic conditions as described in the section entitled “—Risks relating to Our Business— The global economic slowdown and financial crisis have negatively affected, and may continue to negatively affect, our business.”

The cyclical nature of the property market in the PRC affects the optimal timing for the acquisition of sites, pace of development as well as the sales of properties. This cyclicity, combined with the lead time required for completion of projects and the sales of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from year to year.

Adjustments by the PBOC to the benchmark one-year lending rate and reserve requirement ratios may increase our finance costs and the finance costs of our customers

The PBOC regulates and continually adjusts the lending rates and reserve requirement ratios for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks for property developers and leveraged property buyers. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the reserve requirement ratios reduce the amount of bank funds available for lending. The PBOC increased the reserve requirement ratios six times in 2010, and another six times up to November 2011, before reducing the reserve requirement ratios three times between December 2011 and December 31, 2012. The current reserve requirement ratios of 16.5% to 20.0% took effect on May 18, 2012.

The PBOC increased the benchmark one-year lending rate nine times between October 2004 and December 2007, from 5.58% to 7.47%. In 2008, the PBOC reduced the benchmark one-year lending rate five times, from 7.47% to 5.31%. Since late 2009, the PRC government introduced a new round of austerity measures to control the growth of the economy, including increasing the

benchmark one-year lending rate five times between October 2010 and July 2011, to 6.56%. The PBOC subsequently lowered the benchmark one-year lending rate in June and July 2012 and on November 21, 2014, resulting in a new benchmark one-year lending rate of 5.60%. On August 26, 2015, the PBOC again lowered the benchmark one-year bank lending rate to 4.60%, and on October 24, 2015, the PBOC further lowered the benchmark one-year bank lending rate to 4.35%. The benchmark one-year bank lending rates published by the PBOC for the years ended December 31, 2017 and 2018 were 4.35% and 4.35%, respectively. We expect that increases in interest rates and reserve requirement ratios would increase our finance costs in general and the finance costs of leveraged property buyers and as a result, may delay potential purchasers from making a purchase. The effect of the increases in interest rates on our finance costs are not immediately apparent due to our capitalization of finance costs. Upon completion of a project and once the property has been delivered to buyers, the capitalized finance costs of the relevant property will be recognized as direct costs on our consolidated income statements.

Any further increases in interest rates on our bank borrowings, including as a result of interest rate increases by the PBOC, could have a material adverse effect on our business, financial condition, results of operations and prospects. These and other credit tightening measures by the PRC government in recent years have affected the ability of Chinese companies, including property developers, to borrow funds to finance their operation and development plans. Despite recent decreases, the reserve requirement ratio remains at a relatively high level. We cannot assure you that the PBOC will not raise lending rates or reserve requirement ratios in the future, or that our business, financial condition and results of operations would not be adversely affected as a result of these adjustments.

We face intense competition

In recent years, a large number of property developers have undertaken property development and investment projects in Guangdong Province and elsewhere in the PRC. Our major competitors include large national and regional property developers and overseas developers, including a number of leading Hong Kong property developers, some of which may be more sophisticated than us in terms of engineering and technical skills, and may have better track records and greater financial, land and other resources, broader name recognition and greater economies of scale than us.

In addition, the PRC government has recently introduced various policies and measures in order to limit the growth and to prevent the overheating of the property development sector, which has further increased competition for land among real estate developers. For more details, please refer to the sections entitled “Industry Overview” and “Regulation.”

Competition among property developers may result in an increase in acquisition costs of land for development, an increase in the cost or a shortage of 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 our business, financial position and results of operations.

In addition, recent market downturns in the PRC may further intensify competition. If we cannot respond to changes in market conditions or changes in customer preferences more swiftly or effectively than our competitors, our business, financial condition and results of operations could be adversely affected.

Property markets in the PRC are still at an early stage of development and lack adequate infrastructural support

The property markets in the PRC are still at a relatively early stage of development. The growth of the PRC property markets is often coupled with volatility in market conditions and fluctuation in property prices. We cannot predict how much and when demand will develop, as various factors,

including social, political, economic and legal factors may affect the development of the market. The level of uncertainty is increased by limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of an effective liquid secondary market for residential properties may discourage investors from acquiring new properties because resale is not only difficult, but also can be a long and costly process. In addition, 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 properties.

In addition, risk of property over-supply is increasing in certain parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, property prices may fall significantly and our revenue and results of operations will be adversely affected.

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

Under the Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》), which became effective on January 30, 2000 and was amended on October 7, 2017, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. In addition, general contractors are required to provide quality warranties for the properties they build to the relevant property developers, and such property developers may seek reimbursement from the relevant general contractors for amounts paid to customers as a result of claims brought under quality warranties. We act as general contractor for a majority of our property projects, and in such cases we are directly responsible for construction quality and are generally not able to seek reimbursement from third-party contractors where customer claims are brought against us under our quality warranties. We cannot guarantee that we will not receive customer claims in relation to the quality of our projects. If a significant number of claims were brought against us under our quality warranties and if we were unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the money retained by us to cover our payment obligations under the quality warranties was not sufficient, we could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm our reputation, and materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Substantially all of our assets are located in the PRC and our revenue is sourced from the PRC. Accordingly, our results of operations, financial position and prospects are directly affected by the economic, political and legal developments of the PRC.

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

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- political structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and

- allocation of resources.

While the PRC economy has grown significantly in the past 30 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also negatively affect our operations. For example, our financial condition and results of operations may be adversely affected by the PRC government's control over capital investment or any changes in tax regulations or foreign exchange controls that are applicable to us.

The PRC economy has been transitioning from a planned economy to a market oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. However, since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy, including the property market, from overheating. These measures may cause a decrease in the level of economic activity, including demand for residential properties, and may have an adverse impact on economic growth in the PRC. See the section entitled "Regulation" for further information. If China's economic growth decreases or if the PRC economy experiences a recession, the growth in demand for our products may also decrease and our business, financial condition and results of operations will be adversely affected.

In addition, demand for our products and our business, financial condition and results of operations may be adversely affected by:

- political instability or changes in social conditions in the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- imposition of additional restrictions on currency conversion and remittances abroad.

Inflation in China may have a material adverse effect on our business, financial condition and results of operations

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographic areas of the country. Rapid economic growth can lead to growth in money supply and inflation. If prices of our properties rise at a rate that is insufficient to compensate for the rise in our costs, our business, financial condition and results of operations may be materially and adversely affected. To control inflation in the past, the PRC government has imposed control on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such austerity measures can lead to a slowdown in the economic growth and may materially and adversely affect our business, financial condition and results of operations.

Governmental control of currency conversion may limit our ability to use capital effectively

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive our revenues in Renminbi. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE by complying with certain

procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

The labor contract law and other labor laws and regulations in the PRC may adversely affect our business and profitability

The labor contract law promulgated in the PRC on June 29, 2007 and amended on December 28, 2012, effective on July 1, 2013, imposes more stringent requirements on employers in relation to entering into fixed term employment contracts, the hiring of temporary employees and dismissing employees. In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which came into effect on January 1, 2008, employees who have continuously worked for more than one year are entitled to a paid holiday ranging from five to 15 days, depending on their length of service. Employees who agree to waive part or all of their holiday entitlement at the request of their employers must be compensated with three times their normal daily salaries for each day of holiday entitlement being waived. As a result of the labor contract law and related regulations, our labor costs may increase. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could have a material adverse effect on our business, financial condition or results of operations.

In addition, in accordance with relevant PRC labor laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, maternity, work-related injury, unemployment and pension insurance, and to the employee housing provident fund. We provide social insurance and contribute to the housing provident fund for our employees in accordance with the policies and practices of local government authorities' interpretation and implementation of relevant PRC labor laws and regulations. Changes in labor laws or regulations in the PRC in which we operate may result in us incurring significant costs in order to maintain compliance with such laws and regulations and may delay or prevent project completion. Any failure to comply with such labor regulations may result in penalties or litigation, and as a result, our business, financial condition and results of operations could be adversely affected.

Uncertainty with respect to the PRC legal system could adversely affect us and may limit the legal protection available to you

As substantially all of our businesses are conducted, and substantially all of our assets are located, in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. For example, since the tenor exceeds one year, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. Some of the laws and regulations, and the interpretation,

implementation and enforcement thereof, are subject to policy changes. There is no guarantee that the introduction of new laws, changes to existing laws and the interpretation or application thereof, or delays in obtaining rulings, interpretations or approvals from the relevant authorities will not have an adverse impact on our business or prospects.

Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court of another jurisdiction. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management's attention. All these uncertainties could limit the legal protection available to foreign investors, including you.

It may be difficult to effect service of process on our Directors or executive officers who reside in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts

A majority of our senior management members reside in mainland China, and substantially all of our assets, and substantially all of the assets of those persons are located in mainland China. Therefore, it may be difficult for investors to effect service of process upon those persons inside mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Natural disasters, acts of war, occurrence of epidemics, and other disasters could affect our business and the national and regional economies in the PRC

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu or severe acute respiratory syndrome ("SARS"), and other natural disasters which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including certain cities where we operate, are under the threat of floods, earthquakes, sandstorms, snowstorms, fire, droughts or epidemics. Our business, financial condition and results of operations may be materially and adversely affected if natural disasters or other such events occur.

For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008, resulting in tremendous loss of life and injury, as well as destruction of assets in the region. Furthermore, the PRC reported a number of cases of SARS in 2003. Since its outbreak in 2004, there have been reports on occurrences of avian flu in various parts of the PRC, including several confirmed human cases and deaths. In particular, any future outbreak of SARS, avian flu or other similar adverse epidemics may, among other things, significantly disrupt our business, including limiting our ability to travel or ship materials within the PRC. An outbreak of infectious disease may also severely restrict the level of economic activity in affected areas, which may in turn have a material and adverse effect on our results of operations, financial condition and business.

RISKS RELATING TO THE NOTES

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

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries or by certain other Non-Guarantor Subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries and other Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay

principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our PRC subsidiaries.

Creditors, including trade creditors of our Non-Guarantor Subsidiaries (including the Designated Non-Guarantors (as defined in the Description of the Notes)) and any holders of preferred shares in such entities, would have a claim on such subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantor (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee, following the sale or issuance to, or a purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor, multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

Our payment obligations under the Notes will be subordinated to all existing and future obligations of the Designated Non-Guarantors, including, without limitation, the Existing Notes

The Designated Non-Guarantors, being certain Restricted Subsidiaries that are guaranteeing the Existing Notes (other than the February 2019 Notes) and other indebtedness, will not guarantee the Notes. See "Description of the Notes — Definitions — Designated Non-Guarantors." As a result, our payment obligations under the Notes will effectively be subordinated to all existing and future obligations of such Restricted Subsidiaries, including the Existing Notes (other than the February 2019 Notes) and certain offshore indebtedness which are guaranteed by such Restricted Subsidiaries, and all claims of creditors of such Restricted Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are unsecured obligations

As the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are unsecured obligations, our ability or the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) to fulfill our or their financial obligations may be compromised if:

- we, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) enter into bankruptcy, liquidation, reorganization or other winding-up proceeding;
- there is a default in payment under secured indebtedness or other unsecured indebtedness of us, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any); or

- there is an acceleration of any indebtedness of us, any Subsidiary Guarantor or JV Subsidiary Guarantor (if any).

If any of these events occur, our assets and assets of the Subsidiary Guarantors and the JV Subsidiary Guarantees (if any) may not be sufficient to pay amounts due on the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any).

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

In certain circumstances, the Trustee may request holders of the Notes to provide an indemnity and/or security to its satisfaction before it will take actions on their behalf. The Trustee will not be obliged to take any such actions if not indemnified and/or secured to its satisfaction. Negotiating and agreeing to an indemnity and/or security can be a lengthy process and may impact on when such actions can be taken. Further, the Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security to it, in breach of the terms of the Indenture or in circumstances where there is uncertainty or dispute as to such actions' compliance with applicable laws and regulations. In such circumstances, to the extent permitted by any applicable agreements or applicable laws, it will be for the holders of the Notes to take such actions directly.

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

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2017 and 2018, our total outstanding borrowings (excluding the Existing Notes and Corporate Bonds) amounted to RMB19,789.3 million and RMB21,544.1 million (US\$3,133.5 million), respectively.

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

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

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the Notes, our ability to incur additional debt is subject to the limitation on indebtedness and preferred stock covenant. Under such covenant, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated 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-based issuers of high-yield bonds whose covenant does not typically include unrealized gains in the calculation of their respective consolidated EBITDA. In addition, because our definition of Consolidated Interest Expense for the Notes 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) and (ii) any distributions incurred, accrued or payment on any Perpetual Bond Obligation that is accounted for as equity in accordance with the relevant generally accepted accounting principles, of which the aggregate outstanding principal amount does not exceed 20% of Total Assets, once our Existing Notes are fully redeemed or their terms are similarly amended, our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers whose covenants would typically include such interest expense in the definition of consolidated interest expense. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, 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 and the indenture governing the Existing Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the specific exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See the section entitled “Description of Other Material Indebtedness.” Such restrictions in the Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

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

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

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

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated that specifically exempts or reduces such withholding tax. Currently, we invest in most of our PRC operating subsidiaries through Yuen Ming (Hong Kong) Investments Company Limited (“Yuen Ming”) and Kam Wang (Hong Kong) Investments Company Limited (“Kam Wang”), companies incorporated in Hong Kong. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “Hong Kong Tax Treaty”), Yuen Ming and Kam Wang may be subject to withholding tax at a rate of 5% on dividends received from our PRC operating subsidiaries. However, according to Announcement of the State Administration of Taxation on Issues Relating to “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) issued by the PRC State Administration of Taxation on February 3, 2018 (“Announcement No. 9”), if the business activities undertaken by the applicant do not constitute substantive business activities, it is not favourable for determination of “beneficial owner” status of the applicant. It is unclear whether Announcement No. 9 applies to dividends from our PRC operating subsidiaries paid to us through Yuen Ming and Kam Wang. It is possible, however, that under Announcement No. 9, Yuen Ming and Kam Wang would not be considered as the “beneficial owners” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the Hong Kong Tax Treaty, in which case our results of operations and financial position would be materially and adversely affected. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet our payment obligations under the Notes or to satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be), and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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

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

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

The Notes are denominated in the US dollars while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. We have also incurred borrowings denominated in the U.S. dollar. 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 widened to 1.0% on April 16, 2012. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 24.8% from July 21, 2005 to December 29, 2017. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar continued to depreciate at an increasing rate. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies.

The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated

indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes and other indebtedness denominated in foreign currencies.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. If we were unable to provide such collateral, it could constitute a default under such agreements.

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

The Notes are subject to optional redemption by us

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

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

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

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

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

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

In light of land prices, the capital intensive nature of land acquisitions, sizes of projects, the competitive landscape and other factors, we may from time to time consider developing properties jointly with other property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the Indenture governing the Notes. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or joint ventures, these restrictions are subject to important exceptions and qualifications. See the section entitled “Limitation on Restricted Payments” and the definition of “Permitted Investment” in “Description of the Notes.”

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

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

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

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

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. We and our Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become

equity holders of our PRC Subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties in the insolvency laws of the Cayman Islands, the BVI, Hong Kong, the PRC and other jurisdictions applicable to us carefully before you invest in our Notes.

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

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under our current or future debt obligations and other 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 and the indenture governing each of the Existing Notes contains 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 and, the Existing Notes, or result in a default under our other debt agreements, including the Indenture and the indenture governing the Existing Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

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

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

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

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

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

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing of the Notes on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See the section entitled “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained.

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

The Notes are expected to be assigned a rating of “B +” by S&P Ratings and “BB +” by Lianhe Global, a Hong Kong based rating agency. The ratings address 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. Additionally, we have been assigned a long-term foreign currency issuer default rating of “BB-” with a positive outlook by Fitch Ratings, a long-term foreign currency issuer default rating of “Ba3” with a stable outlook by Moody’s Ratings, a long-term foreign currency issuer default rating of “BB-” with a positive outlook by S&P Ratings and “BB +” with a stable outlook by Lianhe Global. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings on the Notes will be confirmed or they or our corporate credit ratings will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant (such circumstances include, for example, if we or our Restricted Subsidiaries were to incur substantial additional indebtedness to the extent permitted under the Indenture). We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

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

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

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

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

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

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

The Notes may not be a suitable investment for all investors

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

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

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with HKFRS, which differs in certain significant respects from GAAP in other jurisdictions, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other GAAP. You should consult your own professional advisors for an understanding of the differences between HKFRS and other GAAP and how those differences might affect the financial information contained in this offering memorandum.

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

For so long as the Notes are listed on the SGX-ST, 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 Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

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

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

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

RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES

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

We conduct substantially all of our business operations through our PRC subsidiaries but none of our current PRC subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC or their future PRC or non-PRC subsidiaries, or that are not permitted by applicable laws or regulation to guarantee the Notes (the “Exempted Subsidiaries”), or that are listed on a qualified exchange and their subsidiaries (the “Listed Subsidiaries”) will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. In addition, certain of our offshore subsidiaries will not be required to guarantee the Notes if the consolidated assets of these subsidiaries (other than the Exempted Subsidiaries and Listed Subsidiaries) do not exceed 30% of our total assets, once our

Existing Notes are fully redeemed or their terms are similarly amended. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of our PRC subsidiaries and other Non-Guarantor Subsidiaries.

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

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to, or purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year-end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

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

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

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) incorporated in the BVI:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place and irrespective of insolvency);
- either (i) put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given or (ii) received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor unless it is entered into in good faith for the purposes of its business with reasonable grounds for believing that it would benefit the guarantor (although in either case a guarantee will only be voidable if it (i) was entered into at a time when the guarantor was insolvent or if it became insolvent as a consequence of doing so, insolvent in this context means that the guarantor fails to comply with the requirements of a statutory demand, execution or other process issued on a judgement, decree or order of a BVI court in favour of a creditor of the guarantor is returned unsatisfied or the guarantor is unable to pay its debts as they fall due, and (ii) was given within the six months, or, if the guarantee and beneficiary are connected entities, two years, before the onset of insolvency).

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) incorporated in other jurisdictions:

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

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees (if any). In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

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

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

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions payable by us in connection with this offering, will be approximately US\$396.0 million, which we plan to use for refinancing our existing indebtedness.

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

EXCHANGE RATE INFORMATION

CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. 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. From July 21, 2005 to December 31, 2013, the value of the Renminbi appreciated by approximately 26.9% against the U.S. dollar. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar continued to depreciate at an increasing rate. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies.

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	Period End	Exchange Rate		
		Average ⁽¹⁾	Low	High
		<i>(RMB per US\$1.00)</i>		
2013	6.0537	6.1412	6.0537	6.2438
2014	6.2046	6.1704	6.0402	6.2591
2015	6.4778	6.2869	6.2046	6.4778
2016	6.9430	6.6400	6.4480	6.9580
2017	6.5063	6.7564	6.4773	6.9575
2018	6.8755	6.6090	6.2649	6.9737
2019				
January	6.6958	6.7863	6.6958	6.8708
February	6.6912	6.7367	6.6822	6.7907
March	6.7112	6.7119	6.6916	6.7381
April	6.7347	6.7161	6.6870	6.7418
May	6.9027	6.8519	6.7319	6.9182
June	6.8650	6.8977	6.8510	6.9298

Source: Federal Reserve H.10 Statistical Release

Note:

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

HONG KONG

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

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

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

Period	Period End	Exchange Rate		
		Average ⁽¹⁾	Low	High
		<i>(HK\$ per US\$1.00)</i>		
2013	7.7539	7.7565	7.7503	7.7654
2014	7.7531	7.7554	7.7495	7.7669
2015	7.7507	7.7519	7.7495	7.7686
2016	7.7534	7.7620	7.7505	7.8270
2017	7.8128	7.7926	7.7540	7.8267
2018	7.8305	7.8376	7.8043	7.8499
2019				
January	7.8463	7.8411	7.8308	7.8463
February	7.8496	7.8477	7.8460	7.8496
March	7.8498	8.8492	7.8466	7.8499
April	7.8451	7.8445	7.8368	7.8497
May	7.8387	8.8478	8.8387	7.8497
June	7.8103	7.8260	7.8080	7.8430

Source: Federal Reserve H.10 Statistical Release

Note:

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of December 31, 2018 on an actual basis and on an adjusted basis after giving effect to the issuance of the February 2019 Notes and the Notes in this offering after deducting the underwriting discounts and commissions payable by us in connection with this offering.

	As of December 31, 2018			
	Actual		As adjusted	
	<i>RMB'million</i>	<i>US\$'million⁽⁹⁾</i>	<i>RMB'million</i>	<i>US\$'million⁽⁹⁾</i>
Cash and cash equivalents⁽¹⁾	28,452.5	4,138.2	33,217.2	4,831.2
Short-term borrowings:⁽²⁾				
Other current liabilities	7,652.4	1,113.0	7,652.4	1,113.0
Bank and other loans	9,577.1	1,392.9	9,577.1	1,392.9
Total short-term borrowings	<u>17,229.5</u>	<u>2,505.9</u>	<u>17,229.5</u>	<u>2,505.9</u>
Long-term borrowings:⁽⁵⁾⁽⁶⁾				
Bank and other loans	11,967.0	1,740.5	11,967.0	1,740.5
Corporate Bonds ⁽³⁾	12,980.0	1,887.9	12,980.0	1,887.9
Senior Notes ⁽⁴⁾	16,764.7	2,438.3	16,764.7	2,438.3
February 2019 Notes	—	—	2,042.0	297.0
Notes to be issued ⁽⁷⁾	—	—	2,722.7	396.0
Total long-term borrowings	<u>41,711.7</u>	<u>6,066.7</u>	<u>46,476.4</u>	<u>6,759.7</u>
Total equity	<u>36,745.8</u>	<u>5,344.5</u>	<u>36,745.8</u>	<u>5,344.5</u>
Total capitalization⁽⁸⁾	<u>78,457.5</u>	<u>11,411.2</u>	<u>83,222.2</u>	<u>12,104.2</u>

Notes:

- (1) Cash and cash equivalents exclude restricted and pledged deposits of RMB7,264.7 million (US\$1,056.6 million).
- (2) Short-term borrowings include the current portion of long-term borrowings.
- (3) Corporate Bonds include the Public Corporate Bonds and the Private Corporate Bonds issued by Shenzhen Logan to qualified investors in tranches in 2015, 2016 and 2018.
- (4) Senior Notes include the January 2016 Notes, the Original January 2017 Notes, the May 2017 Notes, the March 2018 Notes, the April 2018 S\$ Notes and the April 2018 US\$ Notes, the August 2018 Notes, the December 6 2018 Notes and the December 12 2018 Notes.
- (5) Our long-term borrowings do not include any accrual for contracted capital commitments or contingent liabilities. As of December 31, 2018, our contracted capital commitments were RMB14,410.3 million (US\$2,095.9 million) and our contingent liabilities, which were in the form of guarantees for mortgage bank loans granted to purchasers of our properties and guarantees given to banks in connection with banking facilities granted to associates and joint ventures, were RMB42,786.0 million (US\$6,223.0 million).
- (6) Subsequent to December 31, 2018, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property developments, including the Additional January 2017 Notes, among others. These additional borrowings are not reflected in the table above. See the section entitled "Description of Material Indebtedness and Other Obligations."
- (7) The net proceeds from the Notes (with the aggregate principal amount of US\$400.0 million), after deduction of underwriting discounts and commissions, is approximately US\$396.0 million.
- (8) Total capitalization equals total long-term borrowings plus total equity.
- (9) Amounts in Renminbi have been translated into U.S. dollar amounts, and vice versa, for convenience only at the exchange rate of RMB6.8755 to US\$1.00 based on the noon buying rate for U.S. dollars in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018.

In our ordinary course of business, we may consider various financing opportunities and incur additional debt, including, among others, bank borrowings and domestic or offshore bonds or other securities issuances, to finance our property developments or for general corporate purposes. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization and indebtedness since December 31, 2018.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected consolidated financial and other data. The selected consolidated statement of profit or loss data for the years ended December 31, 2017 and 2018 and the selected consolidated statement of financial position data as of December 31, 2017 and 2018 set forth below (except for other financial data and US\$ data) have been derived from our consolidated financial statements as of and for the year ended December 31, 2018, which are included elsewhere in this offering memorandum. Our financial statements as of and for the year ended December 31, 2018 have been prepared and presented in accordance with HKFRS, which differ in certain respects from GAAP in other jurisdictions. The selected financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those financial statements included elsewhere in this offering memorandum. The summary financial data below is qualified in its entirety by reference to our consolidated financial statements and the notes to those financial statements included elsewhere in this offering memorandum.

SELECTED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,		
	2017	2018	
	RMB	RMB	US\$
	(in thousands, except for percentages)		
Revenue	27,689,658	44,136,908	6,419,447
Cost of sales	(18,172,475)	(29,250,015)	(4,254,238)
Gross profit	9,517,183	14,886,893	2,165,209
Other income and gains	696,303	1,368,665	199,064
Other expenses	(10,056)	(56,655)	(8,240)
Selling and marketing expenses	(928,729)	(1,231,356)	(179,093)
Administrative expenses	(748,045)	(1,133,851)	(164,912)
Net increase in fair value of investment properties	2,942,276	1,740,726	253,178
Net increase/(decrease) in fair value of derivative financial instruments	(113,214)	45,970	6,686
Share of profits and losses of associates	278,497	(42,958)	(6,248)
Share of losses of joint ventures	(73,097)	(141,431)	(20,570)
Profit from operations	11,561,118	15,436,003	2,245,074
Finance costs	(672,154)	(1,416,943)	(206,086)
Profit before taxation	10,888,964	14,019,060	2,038,988
Income tax	(3,880,514)	(5,023,154)	(730,588)
Profit for the year	<u>7,008,450</u>	<u>8,995,906</u>	<u>1,308,400</u>
Attributable to:			
— Equity shareholders of the Company	6,527,400	8,288,398	1,205,497
— Non-controlling interests	481,050	707,508	102,903
Profit for the year	<u>7,008,450</u>	<u>8,995,906</u>	<u>1,308,400</u>
Other financial data:			
EBITDA ⁽¹⁾	9,798,851	15,483,435	2,251,972
EBITDA margin ⁽²⁾	35.4%	35.1%	35.1%

Notes:

- (1) EBITDA for any period consists of profit from operations less changes in fair value of investment properties, and other borrowing costs included in finance costs plus capitalized interest included in direct costs and depreciation expenses included in administrative expenses. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company’s ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” for a reconciliation of our profit from operations under HKFRS to our definition of EBITDA. Investors

should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See the section entitled “Description of the Notes—Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

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

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Non-current assets			
Investment properties	15,664,830	18,338,011	2,667,153
Other property, plant and equipment	147,867	176,014	25,600
Deferred tax assets	330,206	649,725	94,499
Investments in associates	2,653,386	1,447,180	210,484
Investments in joint ventures	9,261,913	18,042,573	2,624,183
Assets under cross-border guarantee arrangements.	—	526,335	76,552
Restricted and pledged deposits	218,102	274,350	39,903
	<u>28,276,304</u>	<u>39,454,188</u>	<u>5,738,374</u>
Current assets			
Inventories	38,457,739	54,780,698	7,967,522
Trade and other receivables, prepayments and other assets	20,448,286	37,816,369	5,500,163
Tax recoverable	753,256	773,299	112,471
Assets under cross-border guarantee arrangements.	1,745,380	1,827,322	265,773
Restricted and pledged deposits	2,311,691	6,990,339	1,016,703
Cash and cash equivalents	19,878,192	28,452,462	4,138,239
	<u>83,594,544</u>	<u>130,640,489</u>	<u>19,000,871</u>
Current liabilities			
Trade and other payables	37,275,788	47,449,771	6,901,283
Contract liabilities	—	16,784,879	2,441,259
Liabilities under cross-border guarantee arrangements	1,745,380	2,515,233	365,825
Bank and other loans	5,597,885	9,577,092	1,392,930
Other current liabilities	7,000,000	7,652,449	1,113,003
Senior notes	2,965,541	—	—
Tax payable	2,709,162	4,559,087	663,092
	<u>57,293,756</u>	<u>88,538,511</u>	<u>12,877,392</u>
Net current assets	<u>26,300,788</u>	<u>42,101,978</u>	<u>6,123,479</u>
Total assets less current liabilities	<u>54,577,092</u>	<u>81,556,166</u>	<u>11,861,853</u>
Non-current liabilities			
Liabilities under cross-border guarantee arrangements	—	526,335	76,552
Bank and other loans	14,191,435	11,966,970	1,740,524
Corporate bonds	5,162,449	12,980,000	1,887,863
Senior notes	5,924,103	16,764,667	2,438,320
Deferred tax liabilities	2,135,296	2,572,408	374,141
	<u>27,413,283</u>	<u>44,810,380</u>	<u>6,517,400</u>
NET ASSETS	<u>27,163,809</u>	<u>36,745,786</u>	<u>5,344,453</u>
EQUITY			
Share capital	433,828	434,041	63,129
Perpetual capital securities	2,363,346	2,363,346	343,734
Reserves	20,509,047	26,451,419	3,847,199
Equity attributable to owners			
of the parent	23,306,221	29,248,806	4,254,062
Non-controlling interests	3,857,588	7,496,980	1,090,391
TOTAL EQUITY	<u>27,163,809</u>	<u>36,745,786</u>	<u>5,344,453</u>

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

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated. Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from generally accepted accounting principles in other jurisdictions. In this section of the offering memorandum, references to "2017" and "2018" refer to our financial years ended December 31, 2017 and 2018, respectively.

OVERVIEW

We are a property developer in the PRC focusing on the residential property market, and our products are primarily targeted at first-time homebuyers and upgraders. We believe demand from such customers is less susceptible to fluctuations in property prices and thus provides stability to our business profile. In 2018, we were ranked as the 26th-largest property developer in the PRC by comprehensive strength⁽¹⁾.

We have a land bank comprising land we acquired at competitive prices, and we strive to build our land bank by establishing and expanding our presence in economic regions which we believe hold high growth potential. As of December 31, 2018, we had a land bank with an aggregate GFA of 36.3 million sq.m. primarily comprising residential property projects with ancillary retail shops, as well as an office property project where our headquarters is located. As of December 31, 2018, approximately 62.3% of our land bank was located in the Great Bay Area region, and approximately 11.4% and 21.7% of the land bank was located in Shantou and Nanning, respectively. We believe our current land bank will be sufficient to meet our development needs for the next five to six years, based on our current projections and our historical sales and land development records.

We have established a replicable property development process, which is supported by our in-house departments and subsidiaries specializing in design and planning, construction, decoration, procurement, sales, customer services and each other major step in the property development process. We leverage our ability to build projects through Logan Construction, our own construction subsidiary, and our centralized and strategic procurement, quick development operation model and cost control over the whole property development process to optimize our costs, shorten development cycles, improve cash flow and maintain profitability. Through our strategic planning and disciplined property development process, we aim to achieve high asset turnover for our projects. We generally target commencing pre-sales of properties within six to 10 months of acquiring a parcel of land for a substantial majority of our projects.

As of December 31, 2018, we had completed a total GFA of over 19 million sq.m. Over the past 22 years, we have established ourselves as one of the leading developers focusing on residential properties in China's economically developed cities, regions and emerging areas, including, among others, Shenzhen and other cities located in the Great Bay Area region, Shantou and Nanning. In August 2018, we were awarded 2018 Best Investment Value Chinese Real Estate Developer (2018中國年度投資價值地產企業) by Committee of Boao Real Estate Forum (博鰲房地產論壇組委會). In July 2018, we were ranked 266th on the Fortune China 500 list in terms of our revenue in 2017. In 2019, our Group was recognized as a "2019 Top 100 Chinese Real Estate Developers—Top 10 in Profitability" jointly by the Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua

Note:

(1) The ranking is based on a joint evaluation by Enterprise Institute of the Development Research Center of the State Council of China, Institute of Real Estate Studies of Tsinghua University and China Index Academy of the largest property developers in the PRC by comprehensive strength in 2019.

University (清華大學房地產研究所) and China Index Academy (中國指數研究所). We believe that our track record, together with the strength of our “Logan” (龍光) brand and the leadership and vision of our management team, positions us well to expand into other cities in the PRC. In 2017 and 2018, our revenue was RMB27,689.7 million and RMB44,136.9 million (US\$6,419.4 million), respectively, and our net profit was RMB7,008.5 million and RMB8,995.9 million (US\$1,308.4 million), respectively, for the same periods.

We have developed a diversified product portfolio which includes high-rise apartment buildings and low-rise garden apartments, among others, catering to the residential property market. We have developed two distinctive product styles, namely neoclassical and art deco, each of which comprises standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials. We leverage our quick development operation model and our standardized control over each step of our property development process to ensure product and service quality, maintain and improve our future development and profitability.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by a number of factors, many of which may be beyond our control, including those factors described in the section entitled “Risk Factors” and those described below.

The Performance of National and Local Economies and the Property Markets in China

Substantially all of our revenue in 2017 and 2018 was generated from operations relating to residential property market in the PRC, and in Guangdong and Guangxi Provinces in particular. The performance of these markets has been closely tied to macroeconomic factors, including rates of economic growth and urbanization, as well as fluctuations in the demand for residential properties. The growth of our business and results of operations have, as a result, been driven to a significant extent by GDP growth and increasing urbanization in the PRC generally, and in Guangdong and Guangxi Provinces in particular.

Since 2010, global economic growth has slowed on fears that the sovereign debt crisis of certain eurozone countries would deepen, resulting in uncertainty with regard to China’s economic growth, which affected the PRC property development industry. In 2012, there were renewed signs of uncertainty with regard to China’s economic growth. If China’s economic slowdown or the global economic slowdown continues or becomes more severe than we currently anticipate, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

Governmental Policies and Regulations in the PRC relating to the Property Development Industry

Governmental policies and regulations in the PRC relating to property development and related industries have a direct impact on our business and results of operations, including policies and regulations relating to:

- land acquisition;
- pre-sales;
- the availability of mortgage financing;
- the availability of capital through loans or other sources;
- the transfer of land use rights and completed properties;
- tax;
- planning and zoning; and

- building design and construction.

From time to time the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private residential property sector through regulations relating to, among other things, land grants, pre-sales of properties, bank financing and taxation.

In recent years, the PRC government has implemented a series of measures with a view to managing the growth of the economy, including various restrictive measures to discourage speculation in the property market and to increase the supply of affordable residential properties. These policies have led, and may continue to lead, to changes in market conditions, including changes in price stability, costs of ownership, costs of development and the balance of supply and demand in respect of residential properties. Measures taken by the PRC government to control money supply, credit availability and fixed assets also have a direct impact on our business and results of operations. The PRC government may introduce further initiatives that affect our access to capital and the means by which we finance our property development business.

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

Access to and Cost of Financing

Property development requires substantial capital investment for land acquisition and construction, and it may take many months or years before positive cash flows can be generated from a project. In 2017 and 2018, we primarily used internal funds (including proceeds from the pre-sale and sales of our projects) to acquire land for our project, and a combination of internal funds and bank loans to fund the construction of our projects. We have also financed and will continue to finance the development of our projects using funds raised from capital markets, including the offering of the Existing Notes and the Corporate Bonds. Please see the sub-section entitled “—Liquidity and Capital Resources” below.

Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property development. We are highly susceptible to the effects of any regulations or measures adopted by the PBOC that restrict bank lending, particularly those that restrict the ability of property developers to obtain lending. Moreover, a substantial portion of our purchasers depend on mortgage financing to purchase our properties. Regulations or measures adopted by the PRC government that are intended to restrict the ability of purchasers to obtain mortgages, that limit their ability to resell their properties or that increase the cost of mortgage financing may decrease market demand for our properties and adversely affect our sales revenue.

As commercial banks in China link the interest rates on their loans to PBOC benchmark interest rates, any increase in such benchmark interest rates will increase our finance costs. We expect that any increases in interest rates will increase our borrowing costs in general and the financing cost of leveraged property buyers and, as a result, may delay potential purchasers from making a purchase. The effect of any increases in interest rates on our borrowing costs will not be immediately apparent due to our capitalization of borrowing costs. Upon completion of a project and once the property has been delivered to buyers, the capitalized interest expenses of the relevant

property are recognized as direct costs on our consolidated income statements. As a result, such capitalized borrowing costs have impacted our results in 2017 and 2018 and may adversely affect our gross profit margins upon the sales of such properties.

Income Tax

CIT

We are subject to CIT in China. Effective from January 1, 2008, all enterprises with operations in China, including our PRC subsidiaries, are subject to a uniform income tax rate of 25%. Certain of our subsidiaries incorporated in Shenzhen and Shantou previously enjoyed preferential tax rates which were gradually phased out and those subsidiaries became subject to the uniform tax rate beginning in 2012. Significant judgment is required in determining the provision for income tax. If the final tax applicable is different from the provisions, such difference will impact the income tax and deferred tax provision in the period in which the determination is made, which can have a significant effect on our results of operations.

LAT

Under PRC tax laws and regulations, our income from the sales of land use rights and buildings or related facilities is subject to LAT. LAT is payable at progressive rates ranging from 30% to 60% of the appreciation in value as defined in the relevant tax laws.

In 2017 and 2018, we made LAT provisions of RMB1,454.4 million and RMB1,731.9 million (US\$251.9 million), respectively. In the same periods, we made LAT payments of RMB679.5 million and RMB1,095.8 million (US\$159.4 million), respectively. The provision for LAT is made based on our management's best estimates according to their understanding of the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to determination by the tax authorities upon the completion of the property development projects and could be different from the amounts that were initially recorded, and any such differences will impact our profits after tax and deferred tax provision in the periods in which such taxes are finalized with the relevant tax authorities.

Although we believe our provisions have been made in material compliance with LAT laws and regulations, they may or may not be sufficient to cover future LAT payments.

Fluctuations in Results relating to the Timing of Completion of Our Property Developments

The number of property developments that a property developer can undertake during any particular period is limited due to the substantial amount of capital required to fund land acquisitions and to pay for the cost of construction, as well as by its management resources. Property developments may take many months, or possibly years, before any pre-sale takes place and even longer to complete. While the pre-sale of a property generates positive cash flow for us in the period in which it is made, pursuant to HKFRS, we only recognize revenue upon the delivery of our properties, which takes place approximately six to 30 months after the commencement of pre-sales of our properties. Since the delivery of our properties varies according to our construction timetable, our results of operations may vary significantly from period to period depending on the aggregate GFA delivered and the timing of the delivery of the properties that we sell. Periods in which we deliver more aggregate GFA typically generate a higher level of revenue. Periods in which we pre-sell a large amount of GFA, however, may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. The effect of the timing of project delivery on our operational results is accentuated by the fact that we can only undertake a limited number of projects during any particular period. As a result, our results of operations may fluctuate in the future.

Changes in Estimated Fair Value of Our Investment Properties

Our results of operations have in the past been affected by adjustments in the estimated fair value of our investment properties and may continue to be affected by such adjustments in the future. In 2017 and 2018, we recognized net increase in fair value of investment properties of RMB2,942.3 million and RMB1,740.7 million (US\$253.2 million), respectively, which represented 27.0% and 12.4%, respectively, of our profit before taxation in those periods. Please see the sub-section entitled “—Description of Selected Income Statement Line Items—Net Increase in Fair Value of Investment Properties” below. Our net profit margins (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate)⁽¹⁾ in 2017 and 2018 were 16.7% and 17.2%, respectively. In accordance with HKFRS, we are required to reassess the fair value of our investment properties on each reporting date, and we include the gains or losses arising from changes in the estimated fair value of such investment properties in our income statement in the period in which they arise. Pursuant to Hong Kong Accounting Standard 40, the value of our investment properties may be recognized by using either the fair value model or the cost model. We state the value of our investment properties at their estimated fair value because we are of the view that periodic estimated fair value adjustments in accordance with prevailing market conditions provide a more up-to-date picture of the value of our investment properties. The fair values of our investment properties are based on valuations of such properties conducted by our independent property valuer, using property valuation techniques involving certain assumptions about market conditions.

The increases in fair value of investment properties included in our consolidated income statements reflect unrealized capital gains in the estimated fair value of our investment properties at the relevant reporting date and do not constitute profit generated from our operations or generate any actual cash inflow to us unless and until such investment properties are sold at or above such estimated fair values. Favorable or unfavorable changes in the assumptions of market conditions used by our independent property valuer would result in changes to the fair value of our investment properties and corresponding adjustments to the amount of gains or losses reported in our income statement in the future. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and may fluctuate significantly.

Land Acquisition Costs

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase suitable land reserves at commercially acceptable prices. The cost of acquiring land has a direct and substantial effect on our gross margins. We expect competition among property developers for suitable land reserves to remain intense, which affects land prices.

Our costs of land use rights are influenced by a number of factors, including the location of the property, the timing of the acquisition, as well as the project’s plot ratios. Costs of land use rights are also affected by our method of acquisition. For example, the public tender, auction and listing-for-sale practice in respect of the grant of state-owned construction land use rights is likely to increase competition for available land and to increase land acquisition costs.

In November 2007, the PRC government introduced regulations to increase the transparency related to the grant of state-owned land use rights for residential and commercial property developments through competitive processes administered by local governments, including public tenders, auctions or listing-for-sale. Under such regulations, land use rights certificates are no longer separately issued according to the proportion of the land premium paid. Instead, land use rights

Note:

- (1) The calculation of net profit margin (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate) is based on profit for the year (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate) divided by revenue for such year and multiplied by 100%.

certificates are not issued until the land premium has been fully paid up pursuant to the land grant contract. Furthermore, in November 2009, five PRC regulatory agencies promulgated the Notice on Strengthening of Land Grant Revenues and Expenditures (《關於進一步加強土地出讓收支管理的通知》), which raised the minimum down-payment of land premium to 50% and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. These regulations are expected to be an additional factor increasing the difficulty of acquiring land and contributing to higher land acquisition costs.

Construction Costs

Another key component of our direct costs are construction costs, which consist of all costs for the design and construction of a project, including, primarily, the cost of construction materials and equipment and payments to contractors. The construction costs of our projects vary not only according to the floor area and height of the buildings, but also according to the geology of the construction site. Historically, construction materials costs have been a principal driver of the construction costs of our property developments. Construction costs fluctuate as a result of changes in the prices of key construction materials such as steel and concrete. Construction costs have a direct effect on our gross margin.

We manage the procurement of base construction materials in-house based on their market prices, and generally do not cap the prices of such materials in our procurement contracts. As a result, we are subject to the risks of short-term price fluctuations and long-term movements in the prices of our construction materials. Our profitability may suffer if we cannot pass on any resulting increases in our costs to our customers. Furthermore, as we typically pre-sell our properties prior to their completion, we may not be able to pass on any increases in our costs to our customers where construction costs increase subsequent to such pre-sales.

Expansion into Other Cities

The further expansion of our operations into new cities may impose higher demands on our management's resources and affect our profit margins. We plan to monitor opportunities for expansion into the Yangtze River Delta economic region, the Bohai Bay economic region of northeast China and other high-growth regions in China and the overseas markets. However, as the property development industry is highly competitive and localized, we may not be able to compete effectively in these or other new markets with the established local property developers or national property developers with greater resources. These competitors may have better access to information and knowledge of the market. As such, the level of profitability which we will be able to achieve in such markets is uncertain.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our operating results and financial condition are based on our consolidated financial statements, as of and for the year ended December 31, 2018 which are included elsewhere in this offering memorandum. Our operating results and financial condition are sensitive to accounting methods, assumptions and estimates. The assumptions and estimates we have used have been based on our industry experience and various factors including our management's expectations of future events which they believe to be reasonable. Actual results may differ from these estimates and assumptions. In 2017 and 2018, there were no significant changes in our assumptions and estimates, and we will continuously assess our assumptions and estimates going forward.

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

The Group has adopted HKFRS 15 *Revenue from Contracts with Customers* on 1 January 2018.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Prior to the adoption of HKFRS 15, revenue from the sale of properties is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from the sale of properties excludes business tax and other sales related taxes and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as receipts in advance.

Upon the adoption of HKFRS 15, revenue is recognized when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance (i) provides all of the benefits received and consumed simultaneously by the customer; or (ii) creates and enhances an asset that the customer controls as the Group performs; or (iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

For property development and sales contract for which the control of the property is transferred at a point in time, revenue is recognized when the customer obtains the physical possession or the legal title of the completed property and 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.

Revenue from the sale of properties excludes business tax and other sales related taxes and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as contract liabilities.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Construction income

Prior the adoption of HKFRS 15, when the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.

Upon the adoption of HKFRS 15, the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and continues to recognize revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

(iv) Land development revenue

Land development revenue is recognized at a point in time, when the customer obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable.

(v) Interest income

Interest income is recognized as it accrues using the effective interest method.

(vi) Design fee and construction management service income

Design fee and construction management service income are recognized at the time when the services are provided.

Direct Costs of Completed Properties Available for Delivery

We recognize the direct costs of our properties for a given period to the extent that revenue from the sales of such properties has been recognized in such period. Prior to the recognition of revenue from such sales, completed properties available for delivery are included in our consolidated balance sheets at the lower of cost and net realizable value.

Direct costs for each property sold include the specific development cost of the property, including, primarily, land premium, construction and other development costs, but exclude selling and marketing expenses and administrative expenses.

Properties under Development for Sale and Completed Properties Available for Delivery

Properties classified under inventories on our consolidated balance sheets as properties under development for sale are intended to be held for sale after completion. These properties are stated at the lower of cost and net realizable value and the line item properties under development for sale also includes land premium, development costs and capitalized borrowing costs incurred during the construction period. Upon completion, the properties are classified under inventories as completed properties available for delivery.

During construction, development costs of properties to be sold are recorded under inventories on our consolidated balance sheets as properties under development for sale and are transferred to our consolidated income statement upon recognition of the revenue from the sales of completed properties. Before the final settlement of the development costs and other costs relating to the sales of properties, these costs are accrued by our Group in amounts based on our management's estimates.

When constructing properties, we typically divide the development projects into phases. Costs directly related to the construction of a particular phase are recorded as costs of that phase. Costs that are common to multiple phases are allocated to individual phases in proportion to the saleable area.

Properties classified under inventories as completed properties available for delivery are stated at the lower of cost and net realizable value. Cost of completed properties available for delivery is determined by an apportionment of total land premium and development costs attributable to the unsold properties. Net realizable value is the estimated selling price, based on prevailing market conditions, less costs to be incurred in selling the property.

Investment Properties

Investment properties, including investment properties under development, are interests in land and buildings held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs (if any). Subsequent to initial recognition, investment properties are stated at fair value. The valuations of our investment properties are carried out by an independent firm of professional surveyors by using a direct comparison approach assuming sales of each of such properties in its existing state with the benefit of vacant possession and on a market value basis determined based on comparable market sales transactions as available in the relevant market and, where appropriate, on the basis of capitalization of the net rental income derived from the existing tenancy agreements and making allowance for the reversionary income potential of the relevant properties.

Gains or losses arising from changes in the fair values of investment properties are included in the income statements in the periods in which they arise. Any gains or losses arising from the retirement or disposal of an investment property are recognized in the income statement in the period of the retirement or disposal.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Income Tax

We are subject to CIT and LAT in China. For details, please see the section entitled “—Key Factors Affecting Our Results of Operations—Income Tax” above.

Deferred Tax

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax assets in respect of tax losses carried forward are recognized and measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Future taxable

profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. In determining the carrying amounts of deferred tax assets, we estimate future taxable profits, and such estimation involves a number of assumptions relating to the operating environment of our Group and requires a significant level of judgment exercised by our Directors. Any change in these assumptions and judgments would affect the carrying amounts of deferred tax assets to be recognized, and hence our net profit, in future periods.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

Revenue represents revenue earned in 2017 and 2018 from the sales of properties, rental income, construction and decoration income and primary land development income, attributable to our property development, property leasing, construction contracts and primary land development operating segments, respectively, net of business tax and related taxes and discounts allowed. Further details on these operating segments are set forth in the sub-section entitled “—Segment Reporting” below.

The table below sets forth our revenue (before deducting sales and other taxes) by operating segment for the periods indicated:

	For the year ended December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Revenue			
Sale of properties			
— Residential	20,500,616	35,545,319	5,169,852
— Retail	6,450,563	3,517,577	511,610
	<u>26,951,179</u>	<u>39,062,896</u>	<u>5,681,462</u>
Rental income	87,843	91,676	13,334
Construction and decoration income	966,373	4,191,649	609,650
Primary land development income	—	1,067,449	155,254
Total	<u>28,005,395</u>	<u>44,413,670</u>	<u>6,459,700</u>

Sales of properties represents income generated from the sales of residential properties and retail shops. Consistent with industry practice in the PRC, after satisfying the conditions for pre-sales set forth in PRC laws and regulations, we often enter into sales contracts with customers while the relevant properties are still under development. Typically there is a difference of between six and 30 months from the time we commence pre-selling properties under development to the completion and delivery of the properties. We do not recognize any revenue from the pre-sales of our properties until such properties are delivered, even though the purchase price for a property is usually paid in stages prior to the delivery of the property. Before the delivery of pre-sold properties, deposits and purchase payments or portions thereof received from our customers are recorded as receipts in advance prior to the adoption of HKFRS 15 and as contract liabilities upon the adoption of HKFRS 15, which is a current liability on our consolidated statement of financial position.

Rental income represents recurring income generated from our investment properties, which has been historically generated from operating leases relating to the office units and retail shops developed and held by us as part of our property development projects.

Construction and decoration income represents income from the construction of residential and office buildings and public facilities, such as hospitals and schools, and provision of decoration services.

Primary land development income represents income from the sale of land held for development.

As we derived the majority of our revenue in 2017 and 2018 from the sales of properties, our results of operations for a given period depended upon the amount of total saleable GFA, location and type of properties we completed and delivered during such period and the market demand and the price we obtained for such properties at the time they were sold or pre-sold. Conditions in the property markets in which we operate change from period to period and are affected significantly by general economic, political and regulatory developments in the PRC as well as the regions in which we operate.

The table below sets forth a breakdown of our total saleable GFA delivered and ASP per sq.m. by type for the periods indicated:

	For the year ended December 31,				
	2017		2018		
	Total saleable GFA delivered sq.m.	ASP per sq.m. RMB	Total saleable GFA delivered sq.m.	ASP per sq.m. RMB	ASP per sq.m. US\$
Residential.	2,040,191	10,048	1,784,314	19,921	2,897
Retail.	253,420	25,454	78,157	45,007	6,546
Total	<u>2,293,611</u>		<u>1,862,470</u>		

Note:

- (1) ASP per sq.m. is calculated as the amount of revenue from the sales of properties derived from the relevant amount of total saleable GFA delivered, which does not include car parks, before deducting sales and other taxes, divided by the relevant amount of total saleable GFA delivered.

In 2017, Logan City contributed the largest portion of our revenue from the sales of properties, with 481,660 sq.m. of total saleable GFA delivered at an ASP of RMB14,074 (US\$2,047) per sq.m. In 2018, Shenzhen Carat Complex contributed the largest portion of our revenue from the sales of properties, with 331,790 sq.m. of total saleable GFA delivered at an ASP of RMB55,703 (US\$8,101.7) per sq.m.

Our retail saleable GFA delivered in 2018 had an ASP of RMB45,007 (US\$6,546) per sq.m., as compared to RMB25,454 per sq.m. for that delivered in the 2017. This increase was primarily because of the overall increase of the market price in the real estate market.

Direct Costs

The principal components of direct costs are the cost of completed properties sold, which consists of land premium, development costs and capitalized borrowing costs during the period of construction, the cost of rental income and the cost of construction and decoration income. We recognize the cost of completed properties sold for a given period to the extent that revenue from the sales of such properties has been recognized in such period.

The table below sets forth information relating to our direct costs for the periods indicated:

	For the year ended December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Cost of properties sold			
— Land premium	5,203,411	14,380,761	2,091,595
— Development costs	11,009,587	8,884,473	1,292,193
— Capitalised borrowing costs	1,116,721	1,730,863	251,744
Cost of rental income	—	13,669	1,988
Cost of construction and decoration income	842,756	3,822,669	555,984
Cost of land development	—	<u>417,580</u>	<u>60,734</u>
Total direct costs	<u>18,172,475</u>	<u>29,250,015</u>	<u>4,254,238</u>

Cost of Properties Sold

Land premium

Land premium includes costs relating to the acquisition of rights to occupy, use and develop land, including costs incurred in connection with a land grant from the PRC government or land obtained in the secondary market by transfer, cooperative arrangement or corporate acquisition, the applicable deed tax associated with the acquisition of land, resettlement costs and other land-related taxes and government surcharges. Our land acquisition costs are influenced by a number of factors, including the location of the property, market conditions, the project's plot ratios, the approved use of the land and our method of acquisition, whether through PRC government-organized tenders, auctions or listings-for-sale, through private sales transactions or through the acquisition of other companies that hold land use rights. Land acquisition costs are also affected by changes in PRC regulations.

Development costs

Development costs include all of the costs for the design and construction of a project, including payments to independent contractors and designers and the cost of materials and equipment, government fees and charges and construction management.

Cost of materials is a particularly significant component of our development costs. Development costs fluctuate as a result of changes in the prices of key construction materials, including concrete, iron, steel and other key building materials. Despite our cost control measures, we are still subject to general increases in the price of construction materials, and we expect the current trend of increasing prices for construction materials to continue in the near future, which in turn will increase our construction costs.

Capitalized borrowing costs

We capitalize a portion of our cost of borrowing (including interest expense) to the extent that such costs are directly attributable to the construction of a particular project. In general, we capitalize borrowing costs incurred from the commencement of the planning and design of a project, which predate the receipt of a permit for commencement of construction works, until the physical completion of construction. For any given project, the borrowing costs incurred after completing the construction of a project are not capitalized but are instead expensed in our consolidated income statements as finance costs in the period in which they are incurred. Where the duration of a loan extends beyond the time of the completion of the project, we are unable to capitalize the total interest costs related to the project in the year of completion. Fluctuations in the amount and timing of capitalization from period to period may affect our finance costs.

Most of our borrowing costs have been capitalized and recorded under inventories on our consolidated balance sheets as properties under development for sale or completed properties available for delivery rather than being expensed in our income statement at the time they were incurred.

Cost of Rental Income

Costs related to our rental operations primarily include our maintenance costs for the leased properties developed by us and management fees we pay to third parties for the management of our investment properties. The costs of our rental income are recognized as such costs are incurred.

Cost of Construction and Decoration Income

Costs related to our construction and decoration contracts segment primarily consist of construction materials and labor.

Cost of Land Development

Cost of land development primarily include cost of destruction of existing structures and clearing of the land, cost of construction of infrastructure and cost of land held for development.

Gross Profit

Gross profit represents revenue less direct costs. We achieved our gross profit margins⁽¹⁾ (calculated by dividing gross profit by revenue) of 34.4% and 33.7% in 2017 and 2018, respectively.

The table below sets forth our gross profit and gross profit margin⁽¹⁾ (calculated by dividing gross profit by revenue) by operating segment for the periods indicated:

	For the year ended December 31,				
	2017		2018		
	Gross profit	Gross profit margin	Gross profit	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	<i>US\$'000</i>	%
Sale of properties	9,312,357	35.0%	13,808,280	2,008,331	35.6%
Rental income	83,383	100.0%	69,477	10,105	83.6%
Construction and decoration income.	121,443	12.6%	359,462	52,282	8.6%
Primary land development	—	—	649,674	94,491	60.9%
Total	<u>9,517,183</u>	34.4%	<u>14,886,893</u>	<u>2,165,209</u>	33.7%

Other Revenue

Other revenue primarily consists of interest income, government subsidies and forfeited deposits.

Other Expenses

In 2017 and 2018, other expenses primarily consisted of charitable donations, net losses and gains on the disposal of fixed assets and net foreign exchange loss.

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of staff costs (which include salaries and benefits), advertising and promotional costs, costs of decoration and office supplies, handling charges, registration fee and other selling and marketing expenses.

Note:

(1) The calculation of gross profit margin is based on gross profit divided by revenue for such year multiplied by 100%.

Administrative Expenses

Administrative expenses primarily include staff costs, depreciation and amortization, consultancy fees, other taxes and levies, operating lease expenses, office expenses, entertainment expenses, traveling expenses, repair and maintenance, telecommunication costs, utility expenses, motor vehicle expenses, auditors' remuneration, directors' emoluments, donations, bank charges, registration and insurance, penalty and other administrative expenses.

Net Increase in Fair Value of Investment Properties

We adopted the income capitalization method and direct comparison approach for the valuation of our completed investment properties by capitalizing the rental income derived from the existing tenancies with due provisions for the reversionary income potential of the properties. The investment properties under development have been valued on the basis that the properties will be developed and completed in accordance with our development plans. For our investment properties under development, we have adopted the direct comparison approach, which makes references to comparable sales evidence as available in the relevant market, with adjustments for development costs to be expended to complete the properties.

In 2017 and 2018, increases in the fair value of our investment properties accounted for a significant portion of our profit before taxation. Our results of operations may continue to be affected by adjustments in the estimated fair value of our investment properties. Increases in fair value of investment properties reflect unrealized capital gains in the estimated fair value of our investment properties at the relevant reporting date and do not constitute profit generated from our operations.

We recognize changes in the fair value of our investment properties, including investment properties under development, on our consolidated income statements, unless their fair value cannot be reliably determined at that time. Please see the sections entitled “—Critical Accounting Policies—Investment Properties” and “—Key Factors Affecting Our Results of Operations—Changes in Estimated Fair Value of Our Investment Properties” above.

The relevant deferred tax liability for the fair value gains recognized under income tax expenses in 2017 and 2018 was RMB735.6 million and RMB435.2 million (US\$63.3 million), respectively. The net increase in fair value of our investment properties (net of deferred tax) represented 31.5% and 14.5% of our net profit in 2017 and 2018, respectively.

Pursuant to HKFRS, fair value changes in our investment properties are reflected on our income statement once we determine that the relevant properties are held for investment, regardless of whether they are under development or completed in such period. The increases in fair value of our investment properties in 2017 and 2018 were mainly due to the continuous improvement of surrounding shopping and community facilities. This is primarily due to the direct comparison method adopted for valuing our investment properties under development, which makes adjustments for development costs still to be expended to complete the properties. When such properties move towards completion, the development costs to be expended would decrease, thereby increasing their overall valuation.

In 2017 and 2018, our net increase in fair value of Logan Century Center's investment properties was RMB170 million and RMB117 million (US\$17 million), respectively. The Shenzhen Jiuzuan Project Concentration Commerce Center (深圳玖鑽項目集中商業) and Logan City North Business Center (龍光城北集中商業), also significantly contributed to the valuation of our net increase in fair value of investment properties in 2017 and 2018, amounting to RMB1,257.8 million and RMB1,381.1 million (US\$200.9 million), respectively.

Finance Costs

Finance costs primarily consist of borrowing costs net of capitalized borrowing costs relating to properties under development. Not all of the interest costs related to a project can be capitalized. As a result, our finance costs may fluctuate from year to year depending on the level of interest costs that are capitalized within the reporting period as well as the amount of outstanding principal and interest rates. Finance costs also include other borrowing costs which primarily consist of arrangement fees paid in connection with certain of our bank and related party loans.

The following table sets forth our finance costs for the periods indicated:

	For the year ended December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Interest on bank and other loans and other borrowing costs	1,246,238	1,339,967	194,890
Interest on senior bonds ⁽¹⁾	680,162	881,605	128,224
Interest on corporate bonds ⁽²⁾	615,117	975,814	141,927
Total borrowing costs	2,541,517	3,197,386	465,041
Less: Interest capitalized	(1,869,363)	(1,780,443)	(258,955)
Finance costs	672,154	1,416,943	206,086

Notes:

- (1) Refer to the June 2014 Notes, December 2014 Notes, January 2016 Notes, Original January 2017 Notes, May 2017 Notes, November 2017 Notes, December 2017 Notes, March 2018 Notes, April 2018 S\$ Notes and April 2018 US\$ Notes.
- (2) Refer to our Public Corporate Bonds and Private Corporate Bonds.

Income Tax

Our income tax expenses for a given period include provisions made for CIT and LAT during the period and movements in deferred tax assets and liabilities. No provision for Hong Kong profits tax has been made in 2017 and 2018, as we did not generate any assessable profits arising in Hong Kong.

The following table sets forth our income tax expense for the periods indicated:

	For the year ended December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Current tax			
Provision for CIT for the period	1,910,435	3,108,577	452,124
Provision for LAT for the period	1,454,355	1,731,850	251,887
Dividend withholding tax	—	210,000	30,543
CIT (over-provision)/underprovision in prior years.	64,228	(9,857)	(1,434)
	<u>3,429,018</u>	<u>5,040,570</u>	<u>733,120</u>
Deferred tax	451,496	(17,416)	(2,533)
	<u>3,880,514</u>	<u>5,023,154</u>	<u>730,587</u>

Profit for the Year attributable to Non-controlling Interests

As of December 31, 2018, non-controlling interests mainly represent the 50% equity interest in Foshan Logan Junjing Property Development Co., Ltd. We had profit attributable to non-controlling interests of RMB481.1 million and RMB707.5 million (US\$102.9 million) in 2017 and 2018, respectively, representing 6.9% and 7.9%, respectively, of our net profit in the same periods.

Exchange Differences on Translation of Financial Statements of Overseas Entities

The functional currencies of certain of our subsidiaries are currencies other than Renminbi. As of each of the reporting dates, the assets and liabilities of these entities were translated into our presentation currency, Renminbi, at the exchange rates prevailing at the relevant reporting date, and their income statements were translated into Renminbi at the exchange rates approximating the foreign exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the cumulative amount recognized in the exchange reserve relating to that particular foreign operation is reclassified from equity to profit or loss.

SEGMENT REPORTING

Our business is organized into four operating segments, namely property development, property leasing, construction and decoration contracts and primary land development. Our property development segment includes the development and sales of residential properties and retail shops. Our property leasing segment leases office units and retail shops to generate rental income and to hold as investments for long-term capital appreciation. Our construction and decoration contracts segment constructs residential and non-residential projects, such as office buildings and public facilities. Our primary land development segment includes the destruction of existing structure and clearing of land, construction of infrastructure and sale of land held for development.

The table below sets forth our revenue (before deducting sales and other taxes) by operating segment for the periods indicated:

	For the year ended December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Revenue			
Sale of properties			
— Residential	20,500,616	35,545,319	5,169,852
— Retail	6,450,563	3,517,577	511,610
	26,951,179	39,062,896	5,681,462
Rental income	87,843	91,676	13,334
Construction and decoration income	966,373	4,191,649	609,650
Primary land development income	—	1,067,449	155,254
Total	28,005,395	44,413,670	6,459,700

In 2017 and 2018, a substantial portion of our revenue and cash inflow were derived from the property development segment. The table below sets forth certain data with respect to our property development segment for the periods indicated which we have derived from our internal records and our consolidated financial statements:

	For the year ended December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Receipts in advance/contract liabilities ⁽¹⁾	19,614,745	16,784,879	2,441,259
Net revenue from external customers	26,642,077	38,804,378	5,643,863
Total saleable GFA delivered (sq.m.)	2,293,611	1,862,470	

Note:

(1) Receipts in advance/contract liabilities represent deposits received as of the date indicated from purchasers with whom we have entered into sales contracts after pre-sales commenced.

YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017

Revenue

Our revenue increased to RMB44,136.9 million (US\$6,419.4 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to the increase in revenue from sales of properties and the new added revenue from primary land development.

The table below sets forth a breakdown of our revenue (before deducting sales and other taxes) from the sales of properties, total saleable GFA delivered and ASP per sq.m. by type for the period indicated:

	For the year ended December 31, 2018					
	Revenue from the sales of properties		Total saleable GFA delivered	ASP per sq.m.		
	RMB'000	US\$'000		sq.m.	RMB	
Residential	35,545,319	5,169,852	1,784,314	19,921	2,897	
Retail	3,517,577	511,610	78,157	45,007	6,546	
Total	39,062,896	5,681,462	1,862,470			

Notes:

- (1) ASP per sq.m. is calculated as the amount of revenue from the sales of properties derived from the relevant amount of total saleable GFA delivered, which does not include car parks, before deducting sales and other taxes, divided by the relevant amount of total saleable GFA delivered.

Revenue from the sales of properties increased to RMB39,062.9 million (US\$5,681.5 million) for the year ended December 31, 2018 from the corresponding period in 2017. This increase was primarily due to more properties with high price located in Shenzhen delivered in current period.

Rental income increased to RMB91.7 million (US\$13.3 million) for the year ended December 31, 2018 from the corresponding period in 2017.

Construction and decoration income increased to RMB4,191.6 million (US\$609.6 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to the increase in scale of newly commenced construction projects.

Cost of Sales

Our cost of sales increased to RMB29,250.0 million (US\$4,254.2 million) for the year ended December 31, 2018 from the corresponding period in 2017, which was primarily due to the expansion of business scale.

Gross Profit

As a result of the foregoing, our gross profit increased to RMB14,886.9 million (US\$2,165.2 million) for the year ended December 31, 2018 from the corresponding period in 2017. Our gross profit margin (calculated by dividing gross profit by revenue) decreased to 33.7% for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to the property Shenzhen Carat Complex with very high gross profit margin contributed the largest portion of revenue in the corresponding period of 2018.

Other Revenue

Our other revenue significantly increased to RMB1,368.7 million (US\$199.1 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to more interest income was generated in the current year.

Other Expenses

Our other expenses increased to RMB56.7 million (US\$8.2 million) for the year ended December 31, 2018 from the corresponding period in 2017 primarily due to the increase in charitable donation in the current year.

Selling and Marketing Expenses

Our selling and marketing expenses increased to RMB1,231.4 million (US\$179.1 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to the increase in our property marketing efforts.

Administrative Expenses

Our administrative expenses increased to RMB1,133.9 million (US\$164.9 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to the increase in staff cost.

Net Increase in Fair Value of Investment Properties

The net increase in fair value of our investment properties amounted to RMB1,740.7 million (US\$253.2 million) for the year ended December 31, 2018 and we recorded a larger amount of net increase in fair value of investment properties for the corresponding period in 2017.

Net Increase/(Decrease) in Fair Value of Derivative Financial Instruments

The net increase in fair value of our derivative financial instruments amounted to RMB46.0 million (US\$6.7 million) for the year ended December 31, 2018 and we recorded a net decrease in fair value of our derivative financial instruments for the corresponding period in 2017. We had an increase in fair value of derivative financial instruments in 2018 primarily due to the issuance of new senior notes in the current year.

Finance Costs

Our finance costs increased to RMB1,416.9 million (US\$206.1 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to the increase in scales of corporate bonds and senior notes.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased to RMB14,019.1 million (US\$2,039.0 million) for the year ended December 31, 2018 from the corresponding period in 2017.

Income Tax

Our income tax increased to RMB5,023.2 million (US\$730.6 million) for the year ended December 31, 2018 from the corresponding period in 2017, primarily due to more profit generated from operation.

Profit for the Year

As a result of the foregoing, our profit for the year increased to RMB8,995.9 million (US\$1,308.4 million) for the year ended December 31, 2018 from the corresponding period in 2017. In addition, net profit margin (meaning profit for the year divided by revenue) decreased for the year ended December 31, 2018 from the corresponding period in 2017, primarily driven by decreases in fair value gain in investment property.

Profit Attributable to Non-controlling Interests

Our profit attributable to non-controlling interests increased to RMB707.5 million (US\$102.9 million) for the year ended December 31, 2018 from the corresponding period in 2017.

Profit Attributable to Our Equity Shareholders

As a result of the foregoing, profit attributable to our equity shareholders increased to RMB8,288.4 million (US\$1,205.5 million) for the year ended December 31, 2018 from the corresponding period in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The table below summarizes our consolidated cash flow statement data for the periods indicated:

	For the year ended December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Selected cash flow statement data			
Net cash generated from operating activities	11,515,818	4,568,450	664,453
Net cash used in investing activities	(11,844,156)	(24,045,908)	(3,497,332)
Net cash generated from financing activities	7,017,260	28,267,834	4,111,386
Net increase in cash and cash equivalents	6,688,922	8,790,376	1,278,507

Net cash generated from operating activities

In 2018, our net cash generated from operating activities was RMB4,568.5 million (US\$664.5 million), which was primarily attributable to operating profit before changes in working capital of RMB12,662.0 million (US\$1,841.6 million), offset by tax paid of RMB2,365.7 million (US\$344.1 million).

In 2017, our net cash generated from operating activities was RMB11,515.8 million, which was primarily attributable to (i) operating profit before changes in working capital of RMB7,986.9 million and (ii) increase in trade and other payables of RMB8,501.7 million, offset by tax paid of RMB2,679.5 million.

Net cash used in investing activities

In 2018, our net cash used in investing activities was RMB24,045.9 million (US\$3,497.3 million), which was primarily attributable to (i) advances to joint ventures of RMB18,980.0 million (US\$2,760.5 million), (ii) increase in restricted and pledged deposits of RMB4,734.9 million (US\$688.7 million), (iii) deemed disposal of subsidiaries of RMB1,036.8 million (US\$150.8 million); partially offset by (i) acquisition of subsidiaries of RMB2,689.0 million (US\$391.1 million) and (ii) interest received of RMB595.9 million (US\$86.7 million).

In 2017, our net cash used in investing activities was RMB11,844.2 million, which was primarily attributable to (i) advances to joint ventures of RMB5,968.6 million, (ii) advances to associates of RMB2,835.5 million, (iii) acquisition of subsidiaries of RMB1,376.7 million and (iv) increase in restricted and pledged deposits of RMB1,292.3 million, partially offset by (i) disposal of subsidiaries of RMB249.1 million and (ii) interest received of RMB582.0 million.

Net cash generated from financing activities

In 2018, our net cash generated from financing activities was RMB28,267.8 million (US\$4,111.4 million), which was primarily attributable to (i) proceeds from issuance of corporate bonds of RMB8,490.0 million (US\$1,234.8 million); (ii) proceeds from issuance of senior notes of RMB10,096.4 million (US\$1,468.5 million); (iii) increase in amounts due to non-controlling shareholders of RMB10,590.6 million (US\$1,540.3 million) and (iv) proceeds from new bank and other loans of RMB17,925.6 million (US\$2,607.2 million), partially offset by (i) repayment of bank and other loans of RMB14,579.6 million (US\$2,120.5 million) and (ii) payments for acquisition of non-controlling interests of RMB3,621.8 million (US\$526.8 million).

In 2017, our net cash generated from financing activities was RMB7,017.3 million, which was primarily attributable to (i) proceeds from bank and other loans of RMB14,144.1 million, (ii) proceeds from issuance of senior notes of RMB7,149.8 million, (iii) proceeds from issuance of perpetual capital securities of RMB2,363.3 million, partially offset by (i) repayment of bank and

other loans of RMB7,674.7 million, (ii) repayment of senior notes of RMB3,576.9 million, (iii) payments for acquisition of non-controlling shareholders subject to repurchase obligations of RMB2,022.0 million and (iv) payments for acquisition of non-controlling interests of RMB4,199.8 million.

INDEBTEDNESS AND CONTINGENT LIABILITIES

The following table sets forth the breakdown of our borrowings as of the dates indicated:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Bank loans	13,867,720	15,770,862	2,293,777
Other loans	5,921,600	5,773,200	839,677
Corporate bonds	12,162,449	20,632,449	3,000,865
Senior notes	8,889,644	16,764,667	2,438,320
Total	<u>40,841,413</u>	<u>58,941,178</u>	<u>8,572,639</u>

Bank Loans

The table below sets forth our outstanding bank loans as of the dates indicated:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Bank loans			
— secured	10,208,470	4,211,592	612,551
— unsecured	<u>3,659,250</u>	<u>11,559,270</u>	<u>1,681,226</u>
Total	<u>13,867,720</u>	<u>15,770,860</u>	<u>2,293,777</u>

Notes:

- (1) Bearing interest rates ranging from 4.6% to 8.5% per annum.
- (2) Bearing interest rates ranging from 3.2% to 6.5% per annum.

As of December 31, 2018, our principal bank loans were obtained from banks such as China Construction Bank, China Bohai Bank, China Minsheng Bank, Shanghai Pudong Development Bank and Hang Seng Bank.

The table below sets forth the maturity profiles of our bank loans as of the dates indicated:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Bank loans repayable			
Within one year and included in current liabilities	2,736,285	6,579,292	956,919
After one year and included in non-current liabilities:			
After one year but within two years	6,715,376	2,028,080	294,972
After two years but within five years	4,249,329	7,163,490	1,041,886
After five years	166,730	—	—
	<u>11,131,435</u>	<u>9,191,570</u>	<u>1,336,858</u>
Total	<u>13,867,720</u>	<u>15,770,862</u>	<u>2,293,777</u>

Our bank loans are denominated in Renminbi, Hong Kong dollars and U.S. dollars. Our bank loans bear interest at fixed and floating interest rates. The carrying amounts of our bank loans approximate their fair values. Our bank loans are secured by investment properties, investment properties under development, properties held for development for sale, properties under development for sale, completed properties available for delivery, other land and building and

pledged deposits. We may enter into additional secured bank loans in the future which may be secured by investment properties, investment properties under development, properties under development for sale, completed properties and other land and buildings.

In addition, our bank loans generally include covenants relating to the status of our property development projects, as are commonly found in loan agreements for property development projects in the PRC, the breach of which would result in the relevant bank loans becoming payable on demand.

Since December 31, 2018, we continue to enter into short-term and long-term borrowings in the ordinary course of business, including construction and project loans, to finance our property developments in the PRC. See the sections entitled “Description of Other Material Indebtedness—Industrial Bank Facility” and “Description of Other Material Indebtedness—Credit Suisse Loan Facility.”

Other Financings

In 2017 and 2018, we also obtained other financings from a number of trust companies in the PRC. See the section entitled “Description of Other Material Indebtedness—Other Financings.”

Corporate Bonds

In 2017 and 2018, we also issued the Public Corporate Bonds and the Private Corporate Bonds. See the sections entitled “Description of Other Material Indebtedness—Public Corporate Bonds” and “Description of Other Material Indebtedness—Private Corporate Bonds.”

January 2016 Notes

On January 19, 2016, we issued an aggregate principal amount of US\$260 million of the January 2016 Notes to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the January 2016 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—January 2016 Notes.”

January 2017 Notes

On January 3, 2017 and January 9, 2019, we issued an aggregate principal amount of US\$200 million of the January 2017 Notes and an additional aggregate principal amount of US\$50 million of the January 2017 Notes, respectively, to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the January 2017 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—January 2017 Notes.”

May 2017 Notes

On May 23, 2017, we issued an aggregate principal amount of US\$450 million of the May 2017 Notes to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the May 2017 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—May 2017 Notes.”

March 2018 Notes

On March 7, 2018, we issued an aggregate principal amount of US\$250 million of the March 2018 Notes to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the March 2018 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—March 2018 Notes.”

April 2018 S\$ Notes

On April 16, 2018, we issued an aggregate principal amount of S\$200 million of the April 2018 S\$ Notes to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the April 2018 S\$ Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—April 2018 S\$ Notes.”

April 2018 US\$ Notes

On April 24, 2018 and May 30, 2018, we issued an aggregate principal amount of US\$300 million of the April 2018 US\$ Notes and an additional aggregate principal amount of US\$100 million of the April 2018 US\$ Notes, respectively, to refinance our existing indebtedness and for other general corporate purposes. As of the date of this offering memorandum, the entire principal amount of the April 2018 US\$ Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—April 2018 US\$ Notes.”

August 2018 Notes

On August 27, 2018, we issued an aggregate principal amount of US\$300 million of the August 2018 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the August 2018 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness—August 2018 Notes.”

December 6 2018 Notes

On December 6, 2018, we issued an aggregate principal amount of US\$80 million of the December 6 2018 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the December 6 2018 Notes is outstanding.

December 12 2018 Notes

On December 12, 2018, we issued an aggregate principal amount of US\$370 million of the December 12 2018 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the December 12 2018 Notes is outstanding.

February 2019 Notes

On February 25, 2019, we issued an aggregate principal amount of US\$300 million of the February 2019 Notes to refinance our existing indebtedness. As of the date of this offering memorandum, the entire principal amount of the February 2019 Notes is outstanding. See the section entitled “Description of Other Material Indebtedness- February 2019 Notes.”

Asset-backed securities

On January 25, 2017, Shenzhen Logan issued RMB912.6 million and RMB532.35 million three-years asset-backed securities with 5.60% and 6.08% interest rate.

Guarantees

In the ordinary course of our business, we arrange mortgage loans for certain purchasers of our properties and provide guarantees and pledged deposits to the relevant financial institutions to secure the repayment of these mortgage loans. These guarantees and pledged deposits commence on the date of the grant of the relevant mortgage and are released upon the earlier of (i) the issuance of the real estate ownership certificate, or (ii) the satisfaction of the mortgage loan by the purchaser of the relevant property.

Pursuant to the terms of each guarantee, upon a default in mortgage payments by the purchasers, we become responsible for repaying the outstanding mortgage principal together with accrued interest and penalty owed by the defaulting purchaser to the bank and we are entitled to take over the legal title and possession of the related property.

As of December 31, 2017 and 2018, the aggregate value of the mortgage loans that we guaranteed were RMB18,416.3 million and RMB23,975.5 million (US\$3,487.1 million), respectively.

In addition, as of December 31, 2017 and 2018, we provided guarantees given to banks in connection with banking facilities granted to associates and joint ventures amounting to RMB9,353.5 million and RMB18,810.5 million (US\$2,735.9 million), respectively.

Pledges

As described above, we provide pledged deposits to the relevant financial institutions to secure the repayment of mortgage loans that we arrange for certain purchasers of our properties, which are released upon the earlier of (i) the issuance of the real estate ownership certificate, or (ii) the satisfaction of the mortgage loan by the purchaser of the relevant property. Such pledged deposits are restricted from being used or transferred before the repayment of the respective bank loans. As of December 31, 2017 and 2018, such pledged deposits amounted to RMB578.4 million and RMB328.8 million (US\$47.8 million), respectively. As of December 31, 2017 and 2018, we had pledged deposits as securities in respect of our bank loans of RMB224.6 million and RMB258.2 million (US\$37.6 million), respectively.

As of December 31, 2015, we had pledged deposits as securities in respect of our non-interest bearing payable to a financial institution of RMB1,300.0 million. We did not have such pledged deposits as of December 31, 2017 and 2018.

CAPITAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

In 2017 and 2018, our commitments that were contracted for mainly represented amounts we were liable for under relevant contracts in connection with development expenditures for our properties under development.

The table below sets forth our contracted capital commitments as of the dates indicated:

	As of December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Contracted for	<u>16,064,280</u>	<u>14,410,259</u>	<u>2,095,885</u>

OPERATING LEASES

As Lessee

We lease office space under various operating leases. The leases typically have an initial term of one to four years with options for renewal, at which time all terms are re-negotiated.

In 2017 and 2018, our lease payments for land and buildings charged on our consolidated statements of profit or loss were RMB15.5 million and RMB17.3 million (US\$2.5 million), respectively.

The table below summarizes amounts that we were committed to pay under our operating leases as of the dates indicated:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Within one year	1,913	3,299	480
After one year but within five years	1,467	3,845	559
Total	<u>3,380</u>	<u>7,144</u>	<u>1,039</u>

As Lessor

We also lease out a number of facilities under operating leases, consisting primarily of retail shops attached to some of our property development projects and office space. The leases typically have terms of one to 15 years with annual rent reviews at fixed percentage increases or as otherwise agreed in the lease agreement and options for renewal, at which time all terms are re-negotiated. The table below summarizes the aggregate receivables from our non-cancellable operating leases as of the following dates:

	As of December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Within one year	92,933	87,797	12,770
After one year but within five years	207,276	171,252	24,908
After five years	34,299	37,697	5,482
Total	<u>334,508</u>	<u>296,746</u>	<u>43,160</u>

The receivables from operating leases decreased from RMB334.5 million as of December 31, 2017 to RMB296.7 million (US\$43.2 million) as of December 31, 2018.

OFF-BALANCE SHEET TRANSACTIONS

Except for the contingent liabilities set forth above, as of the date of this offering memorandum, (i) we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties; (ii) we did not have a retained or contingent interest in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets; (iii) we had not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements; and (iv) we did not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

MARKET RISKS

Market risk is the risk of loss related to adverse changes in the market prices of financial instruments, including interest rates and foreign exchange rates. We are exposed to various types of market risk in the ordinary course of business, including changes in interest rates and foreign exchange rates. We maintain our accounting records and prepare our financial statements in Renminbi.

Our assets are predominantly in the form of investment properties, investment properties under development, completed properties available for delivery, properties under development for sale and properties held for development for sale. In the event of a severe downturn in the property market, the value of these assets may not be readily realizable.

Credit Risk

We are exposed to credit risk primarily arising from bank deposits and trade and other receivables. Our management has policies to continuously monitor the exposures to these credit risks. In addition, we rely on the credit evaluations of mortgage banks to ensure that sales of properties are made to buyers with appropriate financial strength and with the appropriate percentage of down payment. The credit risk of our other financial assets, which mainly comprise bank deposits and trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of each of these instruments on our balance sheets.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash from operating activities and the availability of funding through an adequate amount of committed credit facilities. We have a policy to regularly monitor our current and expected liquidity requirements and our compliance with the financial covenants pursuant to our borrowings to ensure that we maintain sufficient reserves of cash and have adequate committed credit lines available.

Interest Rate Risk

We are exposed to interest rate risks, primarily relating to our bank borrowings with floating interest rates, which were RMB157.0 million and RMB182.7 million (US\$26.6 million) as of December 31, 2017 and 2018, respectively. We undertake debt obligations to support our property development and general working capital needs. Upward fluctuations in interest rates increase the cost of our financing. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations.

An increase in interest rates may also adversely affect our prospective purchasers' ability to obtain financing and depress overall housing demand in China. For further information, please see the section entitled "Risk Factors—Risks relating to Property Development in the PRC—Adjustments by the PBOC to the benchmark one-year lending rate and reserve requirement ratios may increase our finance costs and the finance costs of our customers."

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and concrete. We currently do not and do not expect to engage in commodities hedging activities. We purchase most of our supplies of steel and concrete at market prices. As a result, fluctuations in the prices of our construction materials could have a significant impact on our results of operations.

Foreign Exchange Risk

We conduct our operation in the PRC and most of our transactions are settled in Renminbi. Our foreign exchange risk arises primarily from the exposure to fluctuations of the Renminbi against the Hong Kong dollar as a result of our investment in the PRC and certain general administrative expenses settled in Hong Kong dollars. In addition, Renminbi is not freely convertible and the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of Renminbi to the U.S. dollar. Under this policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This floating band was further enlarged in May 2007, April 2012 and March 2014. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in

exchange rates of major international currencies. On September 30, 2016, the International Monetary Fund announced that the Renminbi joins its Special Drawing Rights currency basket. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates.

We recognize foreign exchange gain or loss on our income statement due to changes in value of assets and liabilities denominated in foreign currencies during the relevant accounting period. Appreciation of the Renminbi against the U.S. dollar generally results in a gain from our U.S. dollar-denominated debt and a loss from our bank deposits in Hong Kong dollars and U.S. dollars. A depreciation of the Renminbi against the U.S. dollar would have the opposite effect. In addition, a depreciation of Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign currency-denominated debts.

As a result, fluctuations in the foreign exchange rate have had and will continue to have an impact on our business, financial condition and results of operations. See the section entitled “Risk Factors—Risks relating to the Notes—We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.” We may choose to use hedging transactions to reduce our exposure to foreign exchange rate fluctuations from time to time. For example, we may enter into non-speculative hedging or other derivative transactions, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

Inflation

According to the National Bureau of Statistics of China, China’s overall national inflation rate, as represented by the general consumer price index, was approximately 1.6% and 2.1%, respectively, in 2017 and 2018. Recent inflation and deflation have not materially affected our business, despite relatively significant increases in inflation since 2013. Deflation could adversely affect our business, as it might be a disincentive for prospective purchasers to purchase our properties.

NON-GAAP FINANCIAL MEASURES

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

- changes in fair value of investment properties;
- other borrowing costs included in finance costs;
- capitalized interest included in direct costs; and
- depreciation included in administrative expenses.

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

As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to EBITDA is profit for the year. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year because profit for the year includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA

provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit from operations under HKFRS to our definition of EBITDA for the periods indicated.

	For the year ended December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Profit from operations	11,561,118	15,436,003	2,245,074
Adjustments:			
Net increase in fair value of investment properties	(2,942,276)	(1,740,726)	(253,178)
Other borrowing costs included in finance costs	(1,133)	—	—
Capitalized interest included in direct costs	1,116,721	1,730,863	251,744
Depreciation expenses included in administrative expenses	64,421	57,295	8,332
EBITDA	<u>9,798,851</u>	<u>15,483,435</u>	<u>2,251,972</u>
EBITDA margin	35.4%	35.1%	35.1%

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

INDUSTRY OVERVIEW

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

OVERVIEW OF THE PRC ECONOMY

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. Such growth was further accelerated by the PRC's accession to the World Trade Organization in 2001. According to the National Bureau of Statistics of the PRC, from 2008 to 2017, the PRC's nominal GDP increased at a CAGR of approximately 11.3% from RMB31,675 bn in 2008 to RMB82,712 bn in 2017.

It is expected that the economic growth of China, the increase in disposable net income of urban residents, the growth of urbanization rate as well as the emergence of the mortgage lending market will keep driving the sustainable growth of China's property market in the coming years in the future. In addition, Government's housing reforms will continue to encourage private ownership, stimulating more urban residents to purchase new houses.

The table below sets out selected economic statistics for and certain statistics regarding urbanization in the PRC for the years indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Nominal GDP											
(RMB billion)	31,675	34,565	40,890	48,412	53,412	58,802	63,646	68,905	74,359	82,712	90,031
Real GDP growth											
rate (%).	9.6	9.2	10.6	9.5	7.7	7.7	7.4	8.3	8.0	6.9	6.6
Per capita GDP (RMB).	23,912	25,963	30,567	36,018	39,544	43,320	46,531	50,521	53,435	59,500	64,644
Fixed asset investment											
(RMB billion)	14,817	19,414	24,142	30,193	36,484	43,653	50,201	55,159	59,650	63,168	635,676
Total population											
(million).	1,328	1,335	1,341	1,347	1,354	1,361	1,368	1,375	1,383	1,390	1,395
Urban population											
(million).	624	645	670	691	712	731	749	771	795	814	831
Urbanization rate ⁽¹⁾ (%)	47.0	48.3	49.9	51.3	52.6	53.7	54.8	56.1	57.3	58.5	59.6
Urban resident per capita disposable net income											
(RMB).	15,781	17,175	19,109	21,810	24,565	26,955	28,844	31,195	33,616	36,396	39,251

Source: CEIC Data Company Limited and National Bureau of Statistics of China

Note:

(1) Urbanization rate represents urban population as a percentage of total population in China.

OVERVIEW OF THE PRC PROPERTY MARKET

Between 2008 and 2017

From 2008 to 2017, investment in the real estate industry increased from RMB3,120 billion in 2008 to RMB10,980 billion in 2017. According to the National Bureau of Statistics of China, a total of approximately 1,694 million sq.m. of GFA was sold in 2017, representing a substantial increase as compared to the 660 million sq.m. sold in 2008.

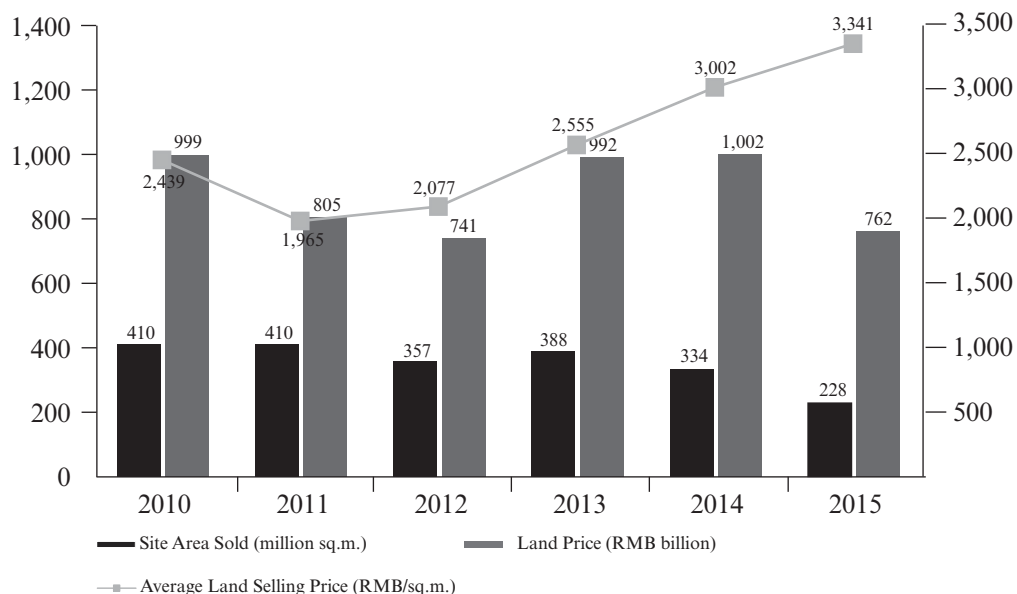
The table below sets forth certain statistics on the property market in the PRC for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real estate investment (RMB billion)	3,120	3,624	4,826	6,180	7,180	8,601	9,504	9,598	10,258	10,980	12,026
Investment in residential property development (RMB billion)	2,208	2,562	3,404	4,431	4,937	5,895	6,435	6,460	6,870	7,515	8,519
Revenue from property sales (RMB billion)	2,670	3,461	4,300	4,449	5,103	7,071	6,646	7,017	9,009	9,590	N/A
Residential											
GFA completed (million sq.m.)	543	596	634	743	790	787	809	738	772	718	936
Total GFA sold (million sq.m.)	593	862	934	965	985	1,157	1,052	1,124	1,375	1,448	1,479
ASP (RMB per sq.m.)	3,576	4,459	4,725	4,993	5,430	5,850	5,933	6,472	7,203	7,614	8,544
Total											
GFA completed (million sq.m.)	665	727	787	926	994	1,014	1,075	1,000	1,061	1,015	936
GFA sold (million sq.m.)	660	948	1,048	1,094	1,113	1,306	1,206	1,285	1,573	1,694	1,717

Sources: National Bureau of Statistics of China and CEIC Data Company Limited

Recent Developments in the PRC Property Market

Land prices in the PRC are affected by multiple factors in recent years. Property market in the PRC has experience of a boost since 2012, in terms of selling price. Total land sales increased from RMB741 billion to 762 billion from 2012 to 2015. According to the National Bureau of Statistics of China, the average land selling prices were RMB2,077 per sq.m. in 2012, RMB2,555 per sq.m. in 2013, RMB3,002 per sq.m. in 2014, and RMB3,341 per sq.m. in 2015 reflecting a year-on-year growth rate of 23.0%, 17.4% and 11.3%, respectively, representing a significant price increase in the past per years.



Source: National Bureau of Statistics of China

Since the beginning of 2010, the PRC government has announced a series of measures designed to stabilize the growth of the PRC economy, including the property market to a more sustainable level. More recently, since September 2016, certain local governments, including without limitation Shenzhen, Zhuhai, Foshan issued notices to implement housing purchase restriction measures for the purpose of sustainable development of the local real estate market. The PRC property market experienced downward pricing pressures in the second half of 2011, as a result of the various policies and measures introduced by the PRC government aiming at “cooling off” the property market. According to a report issued by the National Bureau of Statistics of China, the total GFA sold and total property sales in China in the six months ended June 30, 2012 decreased by 10.0% and 5.2%, respectively, as compared with those in the six months ended June 30, 2011. Beginning in the second quarter of 2012 and continuing through 2013, transaction volumes recovered in the overall PRC property market, due in part to the improving market sentiment in the PRC property market as well as the absence of further major restrictive government policies or measures. According to the National Bureau of Statistics of China, the total GFA sold in 2017 was 1,694 million sq.m., representing a 7.7% increase from the 2016.

OVERVIEW OF SELECTED KEY CITIES IN WHICH WE OPERATE

As official information regarding the number and market share of residential property developers in the selected key cities in which we operate is not publicly available, we have included the names of property developers which we believe to be our main competitors in the discussion of selected key cities below.

Shenzhen

Shenzhen, China's first special economic zone, has attracted significant foreign direct investment. In 2016, foreign direct investment in Shenzhen amounted to a total of US\$52.2 billion. Shenzhen is a major container port and manufacturing center, and is the headquarters of some China's high-tech companies. We believe our main competitors in Shenzhen include Vanke, China Overseas (中海外發展), Shenzhen Investment (深圳控股), China Resources Land (華潤置地), China Merchants Shekou (招商蛇口), and Kingkey (京基地產).

On July 1, 2010, the Shenzhen special economic zone was expanded from the original area of 396 sq.km. to 1,952 sq.km., per Central Government's approval for the expansion. Going forward, Shenzhen plans to further develop cross-border inter- commercial links with Hong Kong, including through the planned Guangzhou-Shenzhen-Hong Kong Express Rail Link which will start operation in second half of 2018. With the launch-up of Guangdong-Hong Kong-Macao Bay Area, an important center for science and technology industries, financial services sector, maritime logistics and manufacturing, Shenzhen could form a partnership industry distribution and city functions with other cities in the region.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Shenzhen for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion)	778.7	820.1	958.2	1,150.2	1,295.0	1,450.0	1,600.0	1,750.0	1,949.0	2,244.0	2,422.2
Real GDP growth											
rate (%)	12.1	10.7	12.0	10.0	10.0	10.5	8.8	8.9	9.0	8.8	7.6
Per capita GDP (RMB) . . .	83,431	84,147	94,296	110,387	123,247	136,948	149,497	157,985	167,411	183,127	189,568
Retail sales (RMB billion) .	227.7	256.8	300.1	352.1	400.9	443.4	491.9	501.7	551.3	601.6	617
Retail sales year-on-year (%)	17.9	12.8	17.2	17.8	16.5	10.6	10.9	2.0	9.9	9.1	7.6
Real estate investment (RMB											
billion)	44	43.7	45.8	59	73.7	87.7	106.9	133.1	175.7	213.1	263.4
GFA completed											
('000 sq.m.)	5,797	4,152	3,760	2,473	2,894	3,536	4,253	3,603	4,900	2,851	2,616
GFA under construction											
('000 sq.m.)	24,877	24,902	25,100	20,899	21,076	40,035	44,922	49,784	51,740	56,761	67,477

Source: CEIC Data Company Limited and Shenzhen Statistics Bureau

Note: N/A means data not available.

Guangzhou

Guangzhou is the provincial capital of Guangdong Province. In 2017, Guangzhou was one of the largest cities in China in terms of GDP, with a nominal GDP of RMB2,150.3 billion. Guangzhou had a population of approximately 14.5 million as of December 31, 2017. We believe our main competitors in Guangzhou include Vanke, Poly, Agile, Aoyuan (奧園), Zhonghui Xiyuan (中惠熙元) and Sunac China (融創).

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Guangzhou for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion).	821.6	911.3	1,074.8	1,230.3	1,355.1	1,542.0	1,670.6	1,810.4	1,954.7	2,150.3	2,285.9
Real GDP growth											
rate (%).	12.5	11.7	13.2	11.0	10.5	11.6	8.6	8.4	8.2	7.0	6.2
Per capita GDP (RMB). . .	81,233	88,834	87,458	97,588	105,909	119,695	128,478	136,188	141,933	150,678	155,491
Per capita disposable income											
for urban households											
(RMB).	25,317	27,610	30,658	34,438	38,054	42,049	42,955	46,734	50,941	55,400	59,982
Retail sales (RMB billion) .	319	362	448	524	598	688	714	799	871	940	926
Retail sales year-on-year (%)	21.5	13.4	24.2	17.1	15.2	15.2	3.8	11.8	9.0	8.0	7.6
Real estate investment (RMB											
billion).	76.3	81.7	98.4	130.7	137	158	181.6	213.7	254.1	270.3	270.2
GFA completed											
('000 sq.m.).	7,546	7,937	7,747	8,317	8,009	11,413	19,195	11,515	12,022	13,207	15,240
GFA under construction											
('000 sq.m.).	36,876	34,533	39,838	48,481	49,176	81,593	93,699	93,456	100,619	106,585	109,990

Source: CEIC Data Company Limited and Guangzhou Statistics Bureau

Note: Information on the GFA sold and ASP in Guangzhou is not publicly available.

Nanning

Nanning is the provincial capital of Guangxi Province. Nanning is situated at the intersection of key railways, with a local economy supported mainly by the mineral, agricultural and tourism industries. Nanning had a population of approximately 7.5 million as of December 31, 2016. We believe our main competitors in Nanning include Guangxi Zhengheng Real Estate (廣西正恒房產), Guangxi Ronghe (廣西榮和), Hanlin Real Estate (翰林地產), Vanke and Poly.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Nanning for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion).	131.6	149.2	180	221.2	250.4	280.3	314.8	341	370.3	411.9	402.4
Real GDP growth											
rate (%).	14.5	15.0	14.2	13.5	12.3	10.3	8.5	8.6	7.0	8.0	5.4
Per capita GDP (RMB). . .	19,142	21,479	25,624	31,173	35,138	38,994	43,303	49,066	52,723	N/A	N/A
Per capita disposable income											
for urban households											
(RMB).	14,446	16,254	18,032	20,005	22,561	24,817	27,075	29,106	30,728	N/A	26,798
Retail sales (RMB billion) .	63.2	75.7	90.6	107.3	125.6	145.1	161.7	178.7	198	220.4	240.2
Retail sales year-on-year (%)	22.5	19.8	20	18.5	17	14	11.4	10.5	10.8	11.3	9.0
Real estate investment (RMB											
billion).	19.9	22.7	31.8	37.7	36.3	41.6	55.2	65.7	85.4	95.8	110.6
GFA completed											
('000 sq.m.).	3,520	3,610	4,333	5,125	5,211	3,256	4,654	5,749.70	4,716.10	5,782.20	7,922.1
GFA under construction											
('000 sq.m.).	16,698	19,528	23,789	36,085	27,349	38,124	45,194	51,749.3	61,912.4	71,716.2	81,298.1
GFA sold ('000 sq.m.) . . .	4,436	6,851	5,835	6,965	5,755	7,026	8,026	10,007	13,275	15,441	17,452
ASP (RMB/sq.m.)	3,720	4,463	5,290	N/A	5,619	6,959	6,627	6,646	6,887	7,776	7,782

Source: CEIC Data Company Limited and Nanning Statistics Bureau

Note: N/A means data not available.

Chengdu

Chengdu is the provincial capital of Sichuan Province and one of the most important economic and transportation hubs in southwest China. As the largest railway hub in southwest China, Chengdu operates four major railway routes including Chengdu-Chongqing, Chengdu-Baoji, Chengdu-Kunming and Chengdu-Dazhou. We believe our main competitors in Chengdu include Yanlord, Greenland and Chengdu Jinfang Group (成都金房集團).

In 2017, investment in fixed assets in Chengdu increased by 12.4% to RMB940.4 billion from the previous year. Chengdu had a total population of approximately 16.0 million as of December 31, 2017. The property market in Chengdu has grown significantly in recent years as urbanization continues to expand. Total investment in real estate industry increased from RMB90.5 billion in 2007 to RMB263.9 billion in 2016. Since 2010, the PRC government introduced a series of policies and measures to prevent the property market from overheating, the development of residential property was then partially suppressed by those restrictive measures.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Chengdu for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion)	390.1	450.3	555.1	695.1	813.9	910.9	1,006	1,080	1,217	1,389	1,534
Real GDP growth											
rate (%)	12.1	14.7	15	15.2	13	10.2	8.9	7.9	7.7	8.1	8.0
Per capita GDP (RMB)	34,873	39,510	41,253	48,755	57,624	63,977	70,019	74,273	76,960	88,914	94,782
Per capita disposable											
income for urban											
households (RMB)	16,943	18,659	19,920	23,932	27,194	29,302	32,665	33,476	35,902	38,918	42,128
Real estate investment											
(RMB billion)	91.3	94.5	127.8	158.8	188.9	211.1	221.6	243.5	264.1	249.3	227
GFA sold ('000 sq.m.)	13,574	25,320	22,899	23,203	24,277	28,452	29,502	30,194	33,499	27,414	17,248
ASP (RMB/sq.m.)	4,778	4,875	5,827	6,310	6,668	N/A	7,024	6,843	7,497	N/A	9,868

Source: CEIC Data Company Limited and Chengdu Statistics Bureau

Note: N/A means data not available.

Shantou

Shantou is located on the eastern coast of Guangdong Province. Shantou was one of China's original special economic zones and remains a significant manufacturing center and port. Shantou had a population of approximately 5.6 million as of December 31, 2017. We believe our main competitors in Shantou include China Overseas and Liantai Real Estate (聯泰地產).

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Shantou for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion)	95.2	103.6	120.9	140.3	141.5	156.6	171.7	186.8	208.1	235.1	251.2
Real GDP growth											
rate (%)	10.5	10.7	13.9	12.2	9.5	10	9	8.4	8.7	9.2	6.9
Per capita GDP (RMB)	18,634	19,982	22,776	25,958	26,047	28,661	31,201	33,732	37,390	41,517	44,672
GFA sold ('000 sq.m.)	1,173	1,100	1,494	1,441	1,698	1,591	1,614	2,236	3,092	5,826	N/A
ASP (RMB/sq.m.)	3,120	3,504	4,145	4,757	5,878	N/A	6,780	7,371	7,903	N/A	9,009

Source: CEIC Data Company Limited and Shantou Statistics Bureau

Note: N/A means data not available.

Huizhou

Huizhou is located in southeastern Guangdong Province. Huizhou's main industries include electronics and petrochemicals. The city is also a significant port in the Great Bay Area region. Huizhou had a population of approximately 4.8 million as of December 31, 2016. We believe our main competitors in Huizhou include Hopson, Wongtee Group, Zhonglian Real Estate (中聯地產), Hongxin Realty (宏新實業) and Centralcon Group, Excellence Group and Dezhou Investment (德州投資).

The table below sets forth certain economic statistics for Huizhou for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion)	130.4	141.5	173	209.7	236.8	267.8	300.1	314	341.2	383.1	410.3
Real GDP growth											
rate (%)	11.5	13.2	18	14.6	12.6	13.6	10	9	8.7	7.6	6.0
Per capita GDP (RMB)	33,077	35,819	N/A	N/A	50,884	57,144	63,665	66,231	71,605	80,200	85,418.0
Retail sales (RMB billion)	42.3	49.1	58.3	68.5	75.4	85.8	96.9	107.1	122.8	136.3	147.9
Retail sales year-on-year											
(%)	19.6	15.1	19	18.2	15.5	13.8	12.9	10.5	14.7	11	9.5
Real estate investment											
(RMB billion)	18.7	17.5	26.8	37.8	48.2	59.4	66.7	61	74.8	88.4	98.4

Source: CEIC Data Company Limited and Huizhou Statistics Bureau

Note: N/A means data not available.

Dongguan

Located in south-central Guangdong Province and east of the Great Bay Area region, Dongguan is bordered by Guangzhou to the northwest and Shenzhen to the south. Dongguan is the meeting point of numerous railways including the Guangzhou-Shenzhen express railway and the Beijing-Kowloon railway. Dongguan Railway Station handles border control for passenger trains traveling between Hong Kong and the PRC. Dongguan had a population of 8.3 million as of December 31, 2016. We believe our main competitors in Dongguan includes Vanke, County Garden and Sunac.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Dongguan for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion)	370.4	376.4	424.6	473.5	501	549	588.1	627.5	682.8	758.2	827.9
Real GDP growth											
rate (%)	14	5.3	10.3	8	6.1	9.8	7.8	8	8.1	8.1	7.4
Per capita GDP (RMB)	50,471	48,988	52,798	57,470	60,556	66,109	70,604	75,616	82,682	92,813	98,939
Real estate investment											
(RMB billion)	27.1	27.8	29.9	37.4	37.7	49.8	58.8	57.5	64.3	70.2	73.7
GFA completed ('000											
sq.m.)	3,952	2,681	2,561	2,423	3,624	2,649	2,649	3,254	3,491	N/A	3,828
GFA under construction											
('000 sq.m.)	N/A	20,501	16,866	23,966	24,539	28,379	35,857	39,212	44,087	N/A	44,217
GFA sold ('000 sq.m.)	4,680	5,788	4,699	5,956	5,834	8,031	5,587	9,778	8,877	N/A	5,068

Sources: CEIC Data Company Limited and Dongguan Statistics Bureau, Guangdong Statistics Bureau

Foshan

Foshan is located in central Guangdong Province, to the southwest of Guangzhou. Foshan is a significant manufacturing center in the Great Bay Area region. Foshan had a population of approximately 7.5 million as of December 31, 2017. We believe our main competitors in Foshan include Poly and Country Garden.

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Foshan for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion).	437.8	482.1	565.1	658.0	670.9	701.0	760.3	800.4	863.0	955.0	993.6
Real GDP growth											
rate (%)	15.2	13.5	14.3	12.1	8.2	10	8.6	8.5	8.3	8.5	6.3
Per capita GDP (RMB) . . .	72,975	80,579	78,503	91,001	N/A	96,310	101,617	108,299	115,891	45,826	49,630
GFA completed ('000 sq.m.)	3,035	2,045	5,043	N/A	N/A	6,044	5,410	3,634	5,667	N/A	N/A
GFA under construction											
('000 sq.m.)	18,600	17,360	25,593	28,722	29,531	46,721	57,353	67,543	77,462	N/A	N/A

Source: CEIC Data Company Limited and Foshan Statistics Bureau

Note: N/A means data not available.

Zhongshan

Zhongshan is located in southern Guangdong Province and a part of the Great Bay Area region, near Zhuhai and Macau. Zhongshan had a population of approximately 3.2 million as of December 31, 2016. We believe our main competitors in Zhongshan include Zhongao Real Estate (中澳房產), Agile and Huiqiao Real Estate (匯喬).

The table below sets forth certain economic statistics for and key statistics related to the residential property market in Zhongshan for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion).	145.7	156.6	185.1	219.1	241.1	263.9	282.3	301.0	320.3	345.0	363.3
Real GDP growth											
rate (%)	11.1	10.2	13.9	13	11	10	8	8.4	7.8	6.6	5.9
Per capita GDP (RMB) . . .	52,921	54,156	60,767	70,014	77,527	83,393	88,682	94,030	99,471	106,327	110,585
Per capita disposable income											
for urban households											
(RMB)	21,560	23,088	25,357	27,700	31,130	34,274	34,304	37,254	41,612	45,295	46,865
Retail sales (RMB billion) .	48	65	64.8	75.6	80.9	89.1	98.2	108.7	120.6	131	149
Retail sales year-on-year (%)	20.5	14.5	18.2	16.9	10.3	10	10.2	10	10.9	8.6	4.5
Real estate investment (RMB											
billion).	19.2	19.2	24.2	31	34.6	39.9	43	48.1	54.4	62.4	69.7
GFA completed ('000 sq.m.)	2,671	3,412	3,988	N/A	N/A	5,630	4,837	7,041	N/A	2,245	2,295
GFA under construction											
('000 sq.m.)	14,748	14,836	8,564	N/A	N/A	37,170	40,269	46,236	N/A	5,012	5,628
GFA sold ('000 sq.m.) . . .	2,853	5,181	6,066	N/A	N/A	7,803	7,641	10,428	11,582	N/A	N/A
ASP (RMB/sq.m.)	4,273	4,546	5,147	N/A	N/A	6,050	6,073	5,884	7,294	N/A	N/A

Source: CEIC Data Company Limited and Zhongshan Statistics Bureau

Note: N/A means data not available.

Zhuhai

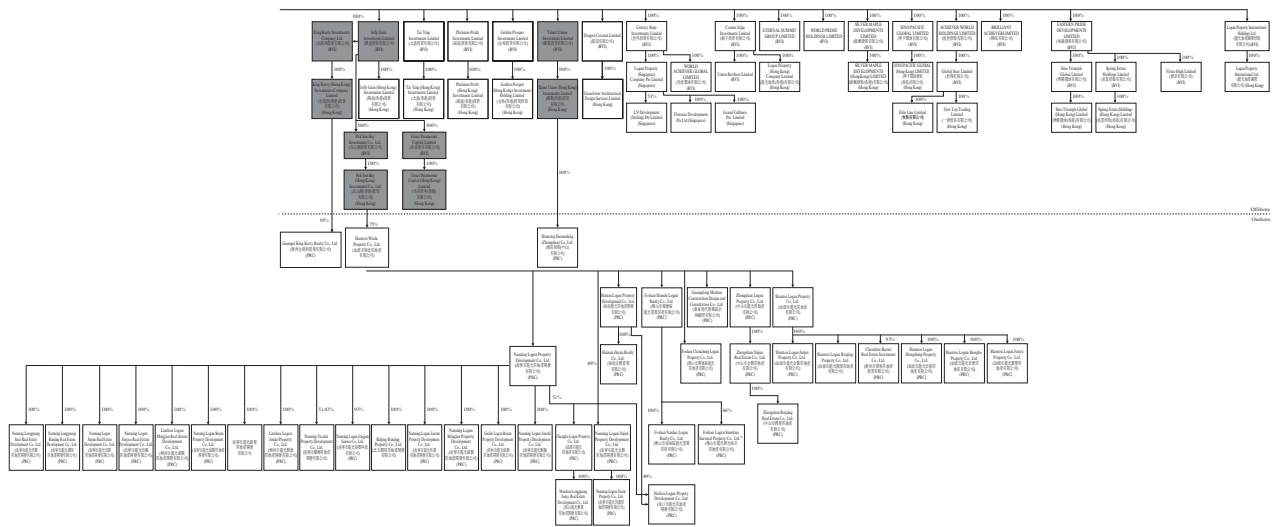
Zhuhai is one of China's special economic zones and is situated immediately to the north and west of Macau. Zhuhai had a population of approximately 1.7 million as of December 31, 2016. We believe our main competitors in Zhuhai include Huafa Industrial Company Limited, Yanlord, Gemdale and Zhongzhu Real Estate (中珠房產).

The table below sets forth certain economic statistics for Zhuhai and key statistics related to the residential property market in Zhuhai for the years indicated:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal GDP											
(RMB billion).	99.7	103.9	120.9	140.5	150.4	166.2	186.7	202.5	222.6	256.5	291.5
Real GDP growth											
rate (%).	9.2	6.6	12.9	11.3	7.0	10.5	10.4	10.0	8.5	9.0	8.0
Per capita GDP (RMB). . .	66,798	68,042	77,888	89,794	95,471	104,786	15,900	124,700	134,548	N/A	159
Retail sales (RMB billion) .	36	40.4	48.6	56.8	63.5	72.1	81.6	91.3	101.6	112.8	116.1
Retail sales year-on-year (%)	19.4	12.3	20.5	18.1	12.7	13.4	13.2	12	11.3	11	7.4
Real estate investment (RMB											
billion).	15.2	16.8	18	25.7	24.2	27.3	38.8	52.4	64.1	66.6	78.7
GFA completed ('000 sq.m.)	3,402	3,104	1,719	2,753	3,292	N/A	1,662	1,964	3,609	4,226	2,671
GFA under construction											
('000 sq.m.).	9,563	8,906	9,174	11,999	13,152	N/A	20,560	22,454	26,439	36,029	34,192
GFA sold ('000 sq.m.) . . .	1,600	2,719	2,335	2,099	2,307	3,422	3,361	4,177	6,531	5,094	3,016
ASP (RMB/sq.m.)	6,987	7,407	10,361	11,495	10,687	11,472	11,698	14,232	18,611	N/A	23,359

Source: CEIC Data Company Limited and Zhuhai Statistics Bureau

Note: N/A means data not available.



BUSINESS

OVERVIEW

We are a property developer in the PRC focusing on the residential property market, and our products are primarily targeted at first-time homebuyers and upgraders. We believe demand from such customers is less susceptible to fluctuations in property prices and thus provides stability to our business profile. In 2018, we were ranked as the 26th largest property developer in the PRC by comprehensive strength.⁽¹⁾

We have a land bank comprising land we acquired at competitive prices, and we strive to build our land bank by establishing and expanding our presence in economic regions which we believe hold high growth potential. As of December 31, 2018, we had a land bank with an aggregate GFA of 36.3 million sq.m. primarily comprising residential property projects with ancillary retail shops, as well as an office property project where our headquarters is located. As of December 31, 2018, approximately 62.3% of our land bank was located in the Great Bay Area region, and approximately 11.4% and 21.7% of the land bank was located in Shantou and Nanning, respectively. We believe our current land bank will be sufficient to meet our development needs and will provide a solid foundation for our continuing growth and profitability for the next five to six years, based on our current projections and our historical sales and land development records.

We have established a replicable property development process, which is supported by our in-house departments and subsidiaries specializing in design and planning, construction, decoration, procurement, sales, customer services and each other major step in the property development process. We leverage our ability to build projects through Logan Construction, our own construction subsidiary, and our centralized and strategic procurement, quick development operation model and cost control over the whole property development process to optimize our costs, shorten development cycles, improve cash flow and maintain profitability. Through our strategic planning and disciplined property development process, we aim to achieve high asset revenue for our projects. We generally target commencing pre-sales of properties within six to 10 months of acquiring a parcel of land for a substantial majority of our projects.

As of December 31, 2018, we had completed a total GFA of over 19 million sq.m. Over the past 20 years, we have established ourselves as one of the leading developers focusing on residential properties in China's economically developed cities, regions and emerging areas, including, among others, Shenzhen and other cities located in the Great Bay Area region, Shantou and Nanning. In August 2018, we were awarded 2018 Best Investment Value Chinese Real Estate Developer (2018中國年度投資價值地產企業) by Committee of Boao Real Estate Forum (博鰲房地產論壇組委會). In July 2018, we were ranked 266th on the Fortune China 500 list in terms of our revenue in 2017. In 2019, our Group was recognized as a "2019 Top 100 Chinese Real Estate Developers—Top 10 in Profitability" jointly by the Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所), the Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究所). We believe that our track record, together with the strength of our "Logan" (龍光) brand and the leadership and vision of our management team, positions us well to expand into other cities in the PRC. In 2017 and 2018, our revenue was RMB27,689.7 million and RMB44,136.9 million (US\$6,419.4 million), respectively, and our net profit was RMB7,008.5 million and RMB8,995.9 million (US\$1,308.4 million), respectively, for the same periods.

We have developed a diversified product portfolio which includes high-rise apartment buildings and low-rise garden apartments, among others, catering to the residential property market. We have developed two distinctive product styles, namely neoclassical and art deco, each of which comprises

Notes:

- (1) The ranking is based on a joint evaluation by Enterprise Institute of the Development Research Center of the State Council of China, Institute of Real Estate Studies of Tsinghua University and China Index Academy of the largest property developers in the PRC by comprehensive strength in 2019.

standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials. We leverage our quick development operation model and our standardized control over each step of our property development process to ensure product and service quality, maintain and improve our future development and profitability.

COMPETITIVE STRENGTHS

We believe that our success and future prospects are supported by a combination of the following key competitive strengths:

We have a land bank comprising land we acquired at competitive prices concentrated in the economically developed Great Bay Area region and in Shantou and Nanning, which provides a solid foundation for our future growth and profitability

As of December 31, 2018, we had a land bank with an aggregate GFA of 36.3 million sq.m., which include 4.4 million sq.m. in completed projects, 14.7 million sq.m. in projects under development, 14.6 million sq.m. in projects for future development and 2.6 million sq.m. in projects to be contracted. Driven by our knowledge of government policies and regional development trends, we have focused our strategic development on, among others, Shenzhen and other cities located in the Great Bay Area region, Shantou and Nanning, with a substantial majority of our land bank concentrated in the economically developed Great Bay Area region. We believe our land bank will be sufficient to meet our development needs for the next five to six years, based on our current projections and our historical sales and land development records. We believe that such holdings allow us to leverage our familiarity and experience in the areas where we have an established presence and benefit from our existing brand and reputation.

We have established a land bank comprising land we acquired at competitive prices through a combination of comprehensive development and complementary project planning. We follow a careful project selection process, and primarily acquire land for our projects through participation in the government public tender and listing-for-sale land grant processes. We acquired certain land parcels at competitive prices, such as those for Logan City, when the infrastructure and common facilities such as roads, schools or commercial districts had not yet been fully developed in their vicinity. As of December 31, 2018, the average cost of land in our land bank was RMB3,985 (US\$579.6) per sq.m. GFA, calculated by the total paid and payable land premiums for such land divided by total GFA. We believe our land bank comprising land we acquired at competitive prices not only supports our future profitability but also gives us greater financial flexibility to respond more effectively to changing market conditions.

We have effective cost control over the entire property development process

We build most of our projects through Logan Construction, our construction subsidiary, which, together with our centralized procurement management, gives us more effective control over construction costs through synergies with our property development management capabilities. Furthermore, Logan Construction possesses a National Housing Construction General Contracting Class 1 Qualification Certificate (國家房屋建築工程施工總承包一級資質認證), enabling it to continue to act as general contractor for our projects as we expand into other high-growth cities elsewhere in China.

We believe we have developed an effective cost control system covering the entire property development process, which enables us to effectively control and manage costs at each step of the project development process. At the initial stage of project design, we seek to make accurate cost projections based upon our prior experience and historical data, and strive to ensure effective cost control through continually monitoring the implementation of such target costs, monitoring market developments, and providing cost control feedback throughout the project design process.

We believe that our tight cost controls, together with our land bank acquired at competitive prices and our standardized product designs and management processes, have been essential in achieving our net profit margins. In 2017 and 2018, our net profit margins (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate)⁽²⁾ were 16.7% and 17.2%, respectively.

We have established diversified funding channels and maintained prudent financial management

In the PRC, we had established cooperative relationships with, and received loans and financings from, major PRC banks including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Ping An Bank and China Merchants Bank as of December 31, 2018. Through our initial public offering in December 2013 and the offering of the Existing Notes and Corporate Bonds, we were able to further diversify our financing sources and obtain funding through accessing the capital markets. We believe our multiple financing channels will provide us with flexibility to fund our operations and enhance our liquidity position.

We have also adopted a prudent financial management approach and carefully managed our financial resources and costs. To do so, we closely monitor our capital and indebtedness levels, the maturity profiles of our borrowings and our cost of capital. As of December 31, 2018, our current ratio, which is equal to our current assets divided by our current liabilities, was 1.5. As of the same date, our total borrowings (excluding the Existing Notes and Corporate Bonds) were RMB21,544.1 million (US\$3,133.5 million), of which RMB9,577.1 million (US\$1,392.9 million) was due within one year and the remaining was due after one year. Our cash and cash equivalents amounted to RMB28,452.5 million (US\$4,138.2 million) as of December 31, 2018. Our average cost of capital in 2017 and 2018 and was 5.8% and 6.1%, respectively, as calculated by (i) total borrowing costs during a year or period divided by (ii) the average of the beginning and ending balances of total borrowings for such year or period. Going forward, we believe that by adhering to our prudent financial management approach, we will be able to utilize our financial resources more efficiently and maintain healthy financial conditions.

Leveraging our considerable strength in various cities in southern China, we can readily expand into other high-growth regions

We have accumulated many years of experience developing projects in Guangdong Province, comprising, among others, Shenzhen, Guangzhou, Shantou, Zhuhai and Huizhou. Since 1997, we have established brand recognition in Shantou through the completion of 33 projects with a total GFA of over 4.8 million sq.m. Leveraging our success and valuable experience in Guangdong Province, in 2006 we expanded into Guangxi Province through the launch of Provence, which is expected to have a total GFA of 4.8 million sq.m. upon completion. In 2011, we were recognized as the second-largest property developer in Nanning by revenue, according to the China Real Estate Information Corporation. Over the past 22 years, we have established ourselves as one of the leading developers focusing on residential properties in China's economically developed cities, regions and emerging areas, including Shenzhen and other cities located in the Great Bay Area region, Shantou, Nanning and other areas. We believe that our established market position and 22 years of experience position us well to expand our business into other high-growth regions.

(2) The calculation of net profit margin (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate) is based on profit for the year (excluding changes in fair value of investment properties and derivatives and the relevant deferred taxes and share of changes in fair value of investment properties at an associate) divided by revenue for such year and multiplied by 100%.

We have developed multiple projects in most of the cities in which we operate, through which we believe we have established brand name recognition and customer loyalty, while maintaining a diversified presence in a variety of locations. We believe that our strategy of focusing on certain target regions and building multiple property projects per region has enabled us to consolidate our market position while distributing risk.

We have a well-experienced management team and have established comprehensive human resources policies to support our future development

Our management team has a wealth of property development management experience in both the investment and operational aspects of the property development process. Mr. Kei, our founder and Chairman, has 22 years of substantial management and leadership experience in the property development industry, and our senior management have an average of over eight years of experience in the property development industry. Under their leadership, we had completed a number of projects with a total GFA of over 19 million sq.m. as of December 31, 2018, including numerous award-winning projects. For example, we successfully completed Phases one through five of Provence, which was recognized as a “Gold Medal International Cultural Community—Innovative Model Habitat” in 2007. Provence was also recognized by SouFun.com Limited as the number one project in Nanning, Guangxi Province by sales for three consecutive years between 2008 and 2010. In addition, Logan City was recognized in 2013 as the “2012 China Urban Area Most Valuable Property.”

We place strong emphasis on our training systems and structure training plans tailored to the needs of employees at different levels. For example, we have an elite manager training plan, senior management promotion program and manager promotion program. Through years of development, we have assembled an experienced core management team. As we expand our business, we engage external recruitment firms for talent searches, and work to attract elite personnel in our industry to complement the abilities of our existing management team. We have also engaged consulting firms to regularly evaluate and improve our human resources policies.

BUSINESS STRATEGIES

We intend to grow and strengthen our business through the implementation of the following core business strategies:

Consolidate our market position in Guangdong and Guangxi Provinces, and selectively expand into other high-growth regions

We will continue to focus our property development business on Guangdong and Guangxi Provinces and further enhance our market position in Shenzhen, Shantou and Nanning. We aim to strengthen our ability to develop multiple projects in our targeted regions to achieve economies of scale. We believe that, by virtue of our successful operating experience and resources in these regions, we will be able to further increase the speed and effectiveness of our project development process, enhancing the profitability and returns on investment of our projects. In addition, we plan to continue conducting in-depth research on national and regional government policies, economies and urbanization trends and monitoring and researching quality sites to selectively expand our business into regions that we believe have high growth potential.

Maintain our competitiveness by focusing on producing high-quality, value-added properties for first-time homebuyers and upgraders

We aim to continue our core focus on the residential property market, with emphasis on demand from first-time homebuyers and upgraders. We believe that our focus on these types of properties is suitable in light of urbanization trends and the recent macroeconomic control measures introduced by the PRC government, and that these types of properties will continue to benefit from high levels of demand as a result. We also plan to strengthen our customer-oriented business

approach through the improvement and innovation of the design, landscaping and facilities of our property development projects to offer our customers innovative, livable, high-value-added and high-quality residences and services.

At the same time, we plan to strengthen our “Logan” (龍光) brand image and market awareness through offering high-quality product and services, and offer more value-added services to customers. We will continue to improve our customer relationship management through our membership program for purchasers of our properties, Logan Club (龍光會), to further enhance our brand equity.

Further attract, develop and retain managerial talents and further elevate managerial expertise

We aim to further attract and retain managerial talents. Toward this end, we have conditionally adopted a share option scheme to provide incentives to our directors, senior management and key department heads, entitling the holders to subscribe for share options of our Company. Furthermore, we plan to further elevate our management’s managerial expertise and develop future managerial candidates through investments in both internal and external training. Through these measures, we believe that we can establish and retain talented management personnel to enhance our current operations and support our future growth.

Continue implementing a high-efficiency operating philosophy to achieve a quick development operation model, further enhancing our operating results

We have implemented a high-efficiency operating philosophy, in which we place significant emphasis on operational efficiency, results and profitability to achieve comprehensive and balanced development and enhance our control over the property development process. We plan to leverage this operating philosophy as a platform to fully implement a quick development operation model, where we efficiently complete the development of our property projects, by expanding our strategic procurement initiatives through our standardized product designs, helping us ensure the continuing supply of high-quality materials, while taking advantage of economies of scale to reduce supply costs. We also plan to continue refining the elements of our property development process to ensure that we are able to achieve our product quality and revenue goals and achieve dynamic cost control over the entire property development process, enabling us to protect project progress, quality and profitability, realize our high-efficiency operating philosophy and further enhance our overall efficiency.

RECENT DEVELOPMENTS

On November 20, 2018, Shenzhen Logan issued the first tranche of a public corporate bond in an aggregate principal amount of RMB2.49 billion (US\$0.4 billion) to qualified investors only with a four-year term at a coupon rate of 5.98% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option. On March 19, 2019, Shenzhen Logan issued the second tranche of the bond to qualified investors, the principal amount of which was RMB1.51 billion (US\$0.2 billion) with a coupon rate of 5.5% per annum due 2024. At the end of the third anniversary from the date of issue, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option.

On January 9, 2019, we issued the Additional January 2017 Notes in an aggregate principal amount of US\$50 million.

On January 13, 2019, the first tranche of the private corporate bonds with a principal amount of RMB2.49 billion (US\$0.4 billion) issued on January 13, 2016 had become matured and been fully repaid by us.

On January 24, 2019, we, as borrower, entered into a facility agreement with certain banks as lenders for a term loan facility of HK\$1,610 million (US\$205.6 million), which may be increased to not more than HK\$2,500 million at an interest rate of HIBOR plus 3.95% per annum. The facility

will be fully repaid within 42 months after the date of the facility agreement. As of the date of this offering memorandum, the entire principal amount of HK\$1,610 million (US\$205.6 million) remains outstanding.

On February 25, 2019, we issued the 7.50% senior notes due 2022 in an aggregate principal amount of US\$300 million.

On June 28, 2019, we granted 10,500,000 share options to certain employees of us and our subsidiaries.

OUR PROPERTY PROJECTS

Overview

As of December 31, 2018, we had a number of property projects under various stages of development located in Great Bay Area, Shantou Area and Nanning Area.

Most of our property development projects are phases of larger property developments, and each phase may be in a different stage of development. We classify our property development projects for which we have obtained some or all of the land use rights certificates, into the following three categories: (i) completed properties, (ii) properties under development and (iii) properties held for future development. Other projects, for which we have entered into contracts but have not obtained any land use rights certificates, are classified as projects contracted to be acquired.

The table below sets forth a breakdown of our total land bank by cities for our property projects as of December 31, 2018:

Total land bank by region and city:	Completed and unsold GFA	Under development	Held for future development		Contracted to be acquired	Total
	(sq.m.)	(sq.m.)	Follow-on projects ⁽²⁾	New Projects	(sq.m.)	(sq.m.)
Shenzhen	581,434	912,230	—	335,920	79,100	1,908,684
Huizhou	1,000,654	2,044,015	1,730,436	546,508	420,200	5,741,813
Foshan	264,124	2,020,228	59,516	886,611	323,876	3,554,356
Hong Kong	—	70,606	—	—	—	70,606
Zhaoqing	—	994,625	—	2,335,639	—	3,330,264
Zhuhai	88,236	860,029	37,664	140,165	63,173	1,189,267
Zhongshan	23,504	659,029	1,641,082	300,400	305,900	2,929,915
Dongguan	59,640	122,760	—	123,558	259,679	565,637
Guangzhou	37,186	—	—	—	—	37,186
Heyuan	—	189,332	—	2,303,824	—	2,493,156
Qingyuan	—	106,770	—	—	—	106,770
Yangjian	—	—	—	647,081	—	647,081
Shantou	861,922	1,044,791	—	133,088	171,200	2,211,001
Chaozhou	—	367,122	719,160	628,764	—	1,715,046
Shanwei	—	199,352	—	—	—	199,352
Nanning	626,726	2,795,250	299,353	1,191,000	868,596	5,780,926
Fang Chenggang	647,727	354,492	—	—	—	1,002,220
Liuzhou	—	618,607	1,958	82,600	72,000	775,165
Guilin	—	296,111	—	—	—	296,111
Jiaxing	—	48,707	—	52,620	—	101,327
Suzhou	—	66,988	—	—	—	66,988
Singapore	—	189,909	—	—	—	189,909
Lingshui	—	—	—	426,142	—	426,142
Chengdu	179,220	544,152	—	—	—	723,372
Meishan	—	170,736	—	—	—	170,736
Haikou	28,257	—	—	—	—	28,257
Total	4,398,630	14,675,841	4,489,170	10,133,921	2,563,724	36,261,286

Notes:

- (1) Figures in the table equal total GFA less (i) total saleable GFA sold and (ii) GFA attributable to car parks sold.
- (2) Follow-on projects consisted of new phases or portions of projects that had been completed or were under development as of December 31, 2018.

The table below sets forth a breakdown of our total saleable/leasable GFA (net of saleable GFA sold) of our major property projects by planned use as of December 31, 2018⁽¹⁾:

Properties for sale	Completed <i>(sq.m.)</i>	Under development <i>(sq.m.)</i>	Held for future development <i>(sq.m.)</i>	Contracted to be acquired <i>(sq.m.)</i>	Total <i>(sq.m.)</i>
Residential	668,717	8,869,225	8,520,060	1,705,311	19,763,313
Retail	222,701	1,524,587	1,851,296	186,784	3,785,368
Office and others	1,977,357	3,333,997	3,883,263	648,255	9,842,872
Sub-total	2,868,774	13,727,809	14,254,620	2,540,350	33,391,553
Properties held for investment					
Retail	133,271	174,495			307,765
Office	43,934	81,010			124,943
Others	61,688				61,688
Sub-total	238,892	255,504	—	—	494,397
Total	3,107,666	13,983,313	14,254,620	2,540,350	33,885,950

Note:

(1) Figures in the table do not take GFA attributable to car parks into consideration.

We include in this offering memorandum the project names which we have used, or intend to use, to market our properties as of the date of this offering memorandum. Some of the project names require the approval of relevant authorities as of the date of this offering memorandum, and the relevant authorities might not have accepted or may not accept the names we have used or those that we intend to use as the registered names of the projects. As a result, the actual names registered with relevant authorities may be different from the names we have used or intend to use, and the names we use or intend to use may be subject to change.

The table below sets forth details of our property development projects as of December 31, 2018:

Completed Properties

Projects	Country/City	Use	Site area (sq.m.)	Total GFA		Total saleable/leasable GFA		Total saleable GFA		Unsold and presold saleable GFA (sq.m.)	Total leasable GFA held as investment (sq.m.)	First launch date	First completion date	Interest attributable to us (%)
				Total GFA (sq.m.)	Fin (sq.m.)	Sold ⁽²⁾ (sq.m.)	Pre-sold ⁽²⁾ (sq.m.)	Unsold ⁽²⁾ (sq.m.)						
1 Grand Joy Palace (君悅華府)	Foshan	Residential/Retail	18,948	83,162	78,948	76,437	69	2,443	2,512	2015/09/18	2015/09/25	100%		
2 Joy Palace (君悅庭)	Foshan	Residential/Retail	71,828	292,886	269,114	262,188	342	6,584	6,926	2013/09/18	2015/09/25	100%		
3 Grand Riverside Bay (水悅龍灣)	Foshan	Residential/Retail	132,035	426,610	372,659	368,417	2,923	1,319	4,242	2013/03/11	2014/01/20	66%		
4 Grand View (水悅雲天)	Foshan	Residential/Retail	83,033	356,784	347,940	344,151	35	3,753	3,789	2010/01/28	2012/03/30	100%		
5 Palm Waterfront (棕櫚水岸)	Guangzhou	Residential/Retail	158,432	308,011	285,500	280,243	24	5,232	5,257			100%		
6 Shine Street Building (尚街大廈)	Foshan	Residential/Retail	13,519	73,627	64,003	57,305	689	6,009	6,698	2014/09/30	2015/11/30	100%		
7 Sky Lake Castle (天湖華府)	Foshan	Residential/Retail	19,618	96,841	89,485	79,828	3,406	6,251	9,657	2015/03/30	2016/09/29	100%		
8 Grand Garden (水悅熙園)	Foshan	Residential/Retail	53,918	264,199	242,151	213,003	649	28,500	29,149	2015/04/30	2017/06/30	100%		
9 Logan City (龍光城)	Huizhou	Residential/Retail	875,251	2,579,678	2,376,583	1,746,349	71,346	558,888	630,234	2011/09/05	2011/12/06	100%		
10 Grand Riverside Bay (水悅龍灣)	Huizhou	Residential/Retail	105,952	310,756	278,271	238,870	1,529	37,873	39,401	2013/08/09	2016/04/22	100%		
11 Sky Palace (天悅庭)	Huizhou	Residential/Retail	89,328	372,134	361,834	276,695	132	85,007	85,139	2012/07/13	2010/04/29	100%		
12 Imperial Summit Sky Villa (君御峰豪園)	Dongguan	Residential/Retail	53,715	208,779	159,807	156,661	446	2,700	3,146	2012/04/27	2013/11/30	100%		
13 Grand Riverside Bay (水悅龍灣)	Nanning	Residential/Retail	82,392	613,676	613,676	467,788	4,049	141,839	145,888	2010/12/02	2013/11/30	100%		
14 Royal Castle (君御華府)	Nanning	Residential/Retail	26,805	141,619	136,511	117,294	25	19,192	19,217	2013/11/13	2016/07/19	100%		
15 Provence (普羅旺斯)	Nanning	Residential/Retail	15,386	1,951,285	1,855,042	1,651,643	7,270	196,130	203,400	2006/12/06	2008/01/16	100%		
16 Grand Joy Castle (君悅華庭)	Nanning	Residential/Retail	34,519	202,459	178,731	142,821	1,091	35,910	35,910	2014/09/12	2016/06/01	100%		
17 Seaward Sunshine (尚海陽光)	Shantou	Residential/Retail	71,764	682,218	617,812	574,992	69	41,729	42,821	2012/09/29	2013/12/13	100%		
18 Sunshine Castle (陽光華府)	Shantou	Residential/Retail	5,166	24,948	21,556	20,066	69	1,421	1,490	2012/03/31	2012/12/28	100%		
19 Flying Dragon Landscape (龍騰嘉園)	Shantou	Residential/Retail	133,892	669,700	584,298	572,088	1,287	10,924	12,210	2014/04/30	2015/11/30	100%		
20 Sea & Sunshine (碧海陽光)	Shantou	Residential/Retail	310,273	394,487	145,499	127,155	1,455	16,889	18,344	2015/08/20	2018/06/20	100%		
21 Royal & Seaward Sunshine Palace (御海陽光)	Shantou	Residential/Retail	146,269	698,658	564,549	519,909	44,640	44,640	44,640	2014/12/30	2016/10/18	100%		
22 Grand Garden (水悅熙園)	Zhongshan	Residential/Retail	36,897	107,387	102,968	100,553	2,415	2,415	2,415	2013/06/25	2014/11/27	100%		
23 Ocean Vista Residence (尚悅華庭)	Zhongshan	Residential/Retail	62,233	163,378	159,807	158,301	223	1,282	1,506	2013/11/08	2015/12/31	100%		
24 Grand Joy Garden (水悅嘉園)	Zhongshan	Residential/Retail	58,908	169,875	169,875	169,229	294	352	646	2014/06/13	2016/04/28	100%		
25 Sky Palace (天悅庭)	Chengde	Residential/Retail	47,191	237,233	218,050	190,509	1,044	26,478	27,521	2012/05/03	2014/03/27	100%		
26 Grand Joy Castle (君悅華庭)	Chengde	Residential/Retail	84,930	359,393	333,647	226,897	1,386	105,364	106,749	2014/10/24	2017/01/13	100%		
27 Sunshine Coast (港陽光海岸)	Fangchenggang	Residential/Retail	506,805	1,251,954	1,251,954	604,227	395,530	252,198	647,727	2010/06/07	2010/07/07	100%		
28 Sea & Sky (海雲天)	Hakou	Residential/Retail	56,501	145,074	116,817	116,817	933	27,324	28,257	2015/02/10	2017/08/22	100%		
29 Landscape Residence/Fragrant Valley Landscape Residence (佛羅華庭/香嵐莊)	Guangzhou	Residential/Retail	142,031.00	389,393.80	385,725.13	379,976.60	282.00	5,466.53	5,748.53			100%		
30 Logan Century Centre (龍光世紀大廈)	Shenzhen	Residential/Retail/Office	17,203.00	80,057.60	56,601.21	13,017.60		45,583.61	43,583.61	42,089.62		100%		
31 Sky Palace (天悅庭)	Shenzhen	Residential/Retail	51,825.60	222,635.00	171,532.05	162,039.00		9,493.05	9,493.05	7,021.25		100%		
32 Flying Dragon Garden (龍騰嘉園)	Shantou	Residential/Retail	53,850.60	255,255.28	253,553.22	248,589.99		4,965.23	4,965.23	3,260.36		100%		

Projects	Country/City	Use	Site area (sq.m.)	Total GFA (sq.m.)	Total saleable/ leasable GFA-		Total saleable GFA		Unsold and presold saleable GFA (sq.m.)	Total leasable GFA held as investment (sq.m.)	First launch date	First completion date	Interest attributable to us (%)
					Fin (sq.m.)	Sold ⁽²⁾ (sq.m.)	Pre-sold ⁽²⁾ (sq.m.)	Unsold ⁽²⁾ (sq.m.)					
33 Access Mansion (玖龍堡)	Shenzhen	Residential/Retail	46,646.77	252,144.00	243,499.69	170,534.52	1,181.28	71,783.89	72,965.17	4,963.00	2015/10/21	2016/12/19	100%
34 Kowloon Bay Garden (玖龍灣)	Zhuhai	Residential/Retail	25,877.00	80,607.00	63,721.74	32,610.00	23,595.48	7,516.26	31,111.74		2016/04/08	2018/01/03	100%
35 Royal & Seward Jubilee (御海天堡)	Shantou	Residential/Retail	131,244.00	420,855.00	331,449.67	284,132.73	9,727.23	37,589.71	47,316.94		2017/01/24	2017/12/19	100%
36 Access Lake (玖龍湖)	Nanning	Residential/Retail	76,154.07	326,757.44	302,562.27	229,525.96	57,809.26	15,227.06	73,036.31		2016/04/15	2018/11/30	100%
37 Royal & Seward Jubilee Garden (御海雅園)	Shantou	Residential/Retail	71,490.00	299,990.00	244,812.66	236,656.36	375.12	7,781.18	8,156.30		2016/04/02	2017/06/15	100%
38 Logan • Carat (龍光•玖龍)	Shenzhen	Residential/Retail	62,945.80	566,301.01	532,407.63	239,930.72	26,665.57	265,811.34	292,476.91		2017/04/01	2018/12/25	100%
39 Masterpiece (玖雲著)	Shenzhen	Residential/Retail	20,173.00	135,440.00	135,440.00	104,308.89		31,131.11	31,131.11		2017/03/09	2017/12/25	100%
40 Access Castle (玖龍府)	Zhuhai	Residential/Retail	49,468.00	191,505.00	163,820.98	151,266.04	1,343.35	11,211.59	12,554.94		2016/11/18	2018/06/14	100%
41 Riverside Palace (龍灣華府)	Foshan	Residential/Retail	81,467.92	322,342.32	322,342.32	250,998.12	1,438.66	69,905.54	71,344.20		2017/03/15	2018/06/29	50%
42 Century Centre (世紀大廈)	Shantou	Office								1,843.90			100%
43 Hongkong Investment Properties	Hong Kong	Residential/Retail								3,849.18			100%
Subtotal			4,085,883.98	16,729,496.64	15,232,796.88	12,364,022.54	618,665.64	2,250,108.70	2,868,774.34				

Properties under Development

Projects	Country/City	Use	Site area (sq.m.)	Total GFA (sq.m.)	Total saleable GFA			Unsold and presold GFA (sq.m.)	Total leaseable GFA held as investment (sq.m.)	First launch date	First completion date	Interest attributable to us (%)
					Sold (sq.m.)	Pre-sold (sq.m.)	Unsold (sq.m.)					
44 Logan City (龍光城)	Huizhou	Residential/Retail	347,906	1,025,402	446,999	12,591	563,868	576,159	71,248	2014/06/13	2019/05/15	100%
45 Logan Century Centre (龍光世紀中心)	Chengdu	Retail/Office	31,803	308,963	0	103,698	61,671	165,369		2017/12/12	2020/04/29	100%
46 Sunshine Coast (港陽光海岸)	Fangchenggang	Residential/Retail	277,368	685,178	330,685	69,799	284,693	354,492		2017/08/07	2019/06/25	100%
47 Provence (普羅旺斯)	Guilin	Residential/Retail	223,532	588,156	498,043	88,202	117,796	205,999		2015/03/16	2019/03/31	100%
48 Masterpiece (玖棠著)	Nanning	Residential/Retail	36,932	175,886	109,523	—	59,368	109,523	50,000	2018/02/07	2020/08/30	100%
49 Acetate Lake (玖龍湖)	Nanning	Residential/Retail	66,158	283,867	199,398	10,202	48,247	58,449		2017/04/28	2019/08/19	100%
50 Logan•Carat (龍光•玖鑽)	Shenzhen	Residential/Retail	24,099	216,812	115,689	4,706	19,124	23,830	134,256	2018/09/07	2019/12/25	100%
51 Logan•Acetate Park (玖龍台)	Shenzhen	Residential/Retail	152,442	787,277	629,456	—	161,239	468,317		2017/07/21	2019/03/20	100%
52 Acetate Castle (玖龍府)	Nanning	Residential/Retail	56,999	382,020	346,555	—	119,899	226,656		2017/04/28	2019/09/25	100%
53 Kowloon Bay (玖龍灣)	Huizhou	Residential/Retail	99,911	350,358	350,358	—	178,304	350,358		2018/04/04	2019/09/14	100%
54 Acetate Castle (玖龍府)	Huizhou	Residential/Retail	57,000	220,973	220,973	—	220,973	220,973		2019/01/11	2020/06/20	100%
55 Acetate Summit (玖龍匯)	Zhuhai	Residential/Retail	49,000	324,229	—	3,828	320,401	324,229		2018/12/14	2020/09/30	100%
56 Acetate Hill (玖龍山)	Huizhou	Residential/Retail	78,000	252,633	—	163,866	88,767	252,633		2018/05/15	2019/09/24	100%
57 Acetate Mansion (玖龍墅)	Zhuhai	Residential/Retail	51,000	162,195	—	4,450	157,745	162,195		2018/01/26	2020/05/30	73%
58 Royal & Seaward Palace (御海天宸)	Shantou	Residential/Retail	186,851	344,051	288,341	—	26,333	288,341		2018/05/31	2019/08/30	100%
59 Acetate Castle (玖龍府)	Luzhou	Residential/Retail	97,915	618,607	476,266	—	244,922	476,266		2017/11/02	2019/10/30	100%
60 Acetate Lake (玖龍湖)	Zhuhai	Residential/Retail	47,000	109,947	109,947	—	22,557	109,947		2018/02/02	2020/02/28	100%
61 Acetate Park/Tonglu Centre (玖龍台/通隆中心)	Huizhou	Residential/Retail	75,823	304,879	304,879	—	304,879	304,879		2019/01/17	2020/09/25	50%
62 Kowloon Bay (玖龍灣)	Zhongshan	Residential/Retail	67,000	249,569	249,569	—	102,651	249,569		2018/02/01	2019/10/31	100%
63 Sunshine Waterfront (陽光水岸)	Chaoshou	Residential/Retail	71,000	364,395	364,395	—	157,565	364,395		2018/03/21	2019/09/15	100%
64 Yijing Sunshine Jubilee Park (悅景陽光禧園)	Shantou	Residential/Retail	28,977	170,696	140,672	—	83,118	140,672		2017/12/26	2019/06/20	100%
65 Acetate Lake (玖龍湖)	Zhaoqing	Residential/Retail	121,938	508,556	502,159	—	141,614	491,403		2018/04/28	2019/11/15	100%
66 Golden Sunshine Castle (金色陽光堡府)	Shantou	Residential/Retail	16,750	98,083	82,634	—	43,014	82,634		2018/03/29	2019/11/15	100%
67 Seaward Garden (盛州天禧)	Huizhou	Residential/Retail	104,000	220,937	220,937	—	10,109	220,937		2018/10/12	2020/03/19	100%
68 Seaward Garden (玖龍灣)	Zhaoqing	Residential/Retail	64,894	343,325	336,957	—	43,136	336,957		2018/05/18	2019/11/15	100%
69 Jinxi Sunshine Castle (錦禧陽光御府)	Shantou	Residential/Retail	39,024	188,517	168,244	—	83,905	168,244		2018/03/29	2019/11/15	100%
70 Unicorn Bay (麒麟灣)	Hong Kong	Residential/Retail	11,752	70,606	—	—	70,606	70,606		2020/01/30	2030/12/31	50%
71 Stirling Residences (尚景苑)	Singapore	Residential/Retail	21,098	88,657	—	—	35,757	88,657		2020/07/10	2030/12/31	51%
72 Acetate Mansion (玖龍墅)	Nanning	Residential/Retail	155,498	524,649	512,313	—	255,799	512,313		2018/03/30	2020/03/31	100%
73 Acetate Lake (玖龍湖)	Foshan	Residential/Retail	77,093	248,459	248,459	—	84,111	248,459		2018/07/11	2019/12/30	100%
74 Acetate Castle (玖龍府)	Zhongshan	Residential/Retail	32,000	93,315	93,315	—	62,600	93,315		2018/06/15	2019/10/31	100%
75 Logan Golden Top Palace (龍光金輝樓步學府)	Foshan	Residential/Retail	23,275	74,481	71,309	—	71,309	71,309		2018/12/19	2020/04/30	100%
76 Acetate Castle (玖龍府)	Heyuan	Residential/Retail	61,000	189,332	189,019	—	52,186	189,019		2018/09/28	2019/12/06	100%
77 Acetate Castle (玖龍府)	Foshan	Residential/Retail	43,354	165,698	165,698	—	30,368	165,698		2018/07/17	2020/05/30	50%
78 Honorary Palace (玖龍府)	Foshan	Residential/Retail	65,828	227,124	222,099	—	99,114	222,099		2018/06/13	2019/11/30	100%
79 Honorary Palace (玖龍府)	Nanning	Residential/Retail	61,085	175,430	36,461	105,073	33,896	138,969		2018/04/16	2020/02/20	100%

Projects	Country/City	Use	Site area (sq.m.)	Total saleable/leasable GFA		Total saleable GFA		Total saleable GFA		Unsold and pre-sold saleable GFA (sq.m.)	Total leasable GFA held as investment (sq.m.)	First launch date	First completion date	Interest attributable to us (%)
				Total GFA (sq.m.)	Fin (sq.m.)	Sold (sq.m.)	Pre-sold (sq.m.)	Unsold (sq.m.)						
80	Celestial Jade Bay (沃琅灣)	Residential/Retail	22,671	50,950	25,151	—	25,151	25,151	25,151	25,151	2018/07/15	2018/12/08	80%	
81	Acesite Hill (玖龍山)	Residential/Retail	45,000	153,500	153,500	—	12,851	140,649	153,500	153,500	2018/11/22	2020/06/25	100%	
82	Logan Hyatt Palace (龍光悅府)	Residential/Retail	56,425	183,259	179,313	—	23,630	155,683	179,313	179,313	2018/07/30	2019/12/30	50%	
83	The Florence Residence (悅湖苑)	Residential/Retail	36,161	101,251	101,251	—	—	101,251	101,251	101,251	2019/03/30	2020/12/31	100%	
84	Acesite Castle (玖龍府)	Residential/Retail	82,000	235,189	235,187	—	81,433	153,754	235,187	235,187	2018/06/29	2020/03/30	100%	
85	Glory Lake (玖龍湖)	Residential/Retail	119,935	666,446	654,466	—	304,904	349,562	654,466	654,466	2018/09/27	2020/08/30	100%	
86	Honorary Palace (玖譽府)	Residential/Retail	52,352	234,165	234,165	—	43,340	190,825	234,165	234,165	2018/09/18	2020/06/30	100%	
87	Royal & Seaward Heaven Graceland (御海天韻雅園)	Residential/Retail	56,603	176,737	176,737	—	6,255	170,482	176,737	176,737	2019/02/15	2020/12/31	100%	
88	Royal & Seaward Shine Castle (御海尚品華府)	Residential/Retail	12,992	66,707	54,967	—	10,493	44,474	54,967	54,967	2019/01/31	2020/07/30	100%	
89	Acesite Hill (玖龍山)	Residential/Retail	25,000	75,044	75,044	—	14,587	60,457	75,044	75,044	2018/09/19	2020/05/31	100%	
90	Honorary Bay (玖譽灣)	Residential/Retail	49,272	245,915	228,105	—	83,093	145,012	228,105	228,105	2018/07/17	2020/06/25	100%	
91	The Cullinan (中山天麓)	Residential/Retail	28,384	105,148	105,148	—	3,262	101,886	105,148	105,148	2018/11/10	2020/04/30	100%	
92	Acesite County (玖龍郡)	Residential/Retail	26,038	85,002	84,292	—	15,537	68,755	84,292	84,292	2018/09/11	2020/06/20	100%	
93	Acesite County Phase I (龍德玖龍郡一期)	Residential/Retail	42,050	195,112	195,112	—	14,546	180,566	195,112	195,112	2018/12/20	2020/08/30	100%	
94	Lake City (湖城大境)	Residential/Retail	81,833	263,657	263,657	—	1,146	262,511	263,657	263,657	2018/11/29	2019/12/31	50%	
95	Royal Waterfront (湖州御水岸)	Residential/Retail	476	2,726	2,707	—	—	2,707	2,707	2,707	2018/08/18	2021/05/31	100%	
96	Celestial Gem Plaza (天璣廣場)	Residential/Retail	20,778	205,932	202,496	—	—	202,496	202,496	202,496	2020/02/06	2021/12/22	50%	
97	Glory Lake (玖龍湖)	Residential/Retail	49,356	125,837	125,837	—	—	125,837	125,837	125,837	2019/03/12	2020/06/15	100%	
98	Baihua Town Project (百花鎮項目)	Residential/Retail	27,990	115,530	104,600	—	—	104,600	104,600	104,600	2019/04/28	2020/11/17	33%	
99	Acesite Castle (玖龍府)	Residential/Retail	32,309	199,352	187,666	—	—	187,666	187,666	187,666	2019/01/17	2020/09/28	100%	
100	Kowloon Bay (順德玖龍灣)	Residential/Retail	61,592	257,780	257,780	—	—	257,780	257,780	257,780	2019/07/02	2021/05/30	100%	
101	Kowloon Bay (玖龍灣)	Residential/Retail	33,578	66,988	66,988	—	—	66,988	66,988	66,988	2019/01/04	2020/04/28	50%	
102	Acesite Castle (龍城玖龍府)	Residential/Retail	25,201	102,382	102,382	—	—	102,382	102,382	102,382	2019/07/11	2020/12/15	100%	
103	AcesiteMansion (玖龍墅)	Residential/Retail	34,418	122,760	122,760	—	—	122,760	122,760	122,760	2019/05/15	2020/07/22	100%	
104	Acesite Castle (玖龍府)	Residential/Retail	33,288	106,770	106,770	—	—	106,770	106,770	106,770	2019/04/21	2020/06/10	100%	
105	Acesite Castle (玖龍府)	Residential/Retail	81,471	170,736	169,186	—	756	168,430	169,186	169,186	2018/11/21	2020/07/22	100%	
106	Gentlefolk (金致世家)	Residential/Retail	51,809	276,335	271,305	—	108,378	162,927	271,305	271,305	2018/12/22	2020/12/10	50%	
107	Impressions of Discovery Bay (印象嶺景灣)	Residential/Retail	73,810	412,031	382,960	—	112,938	270,022	382,960	382,960	2019/04/19	2021/09/23	33%	
108	Acesite Castle (玖龍郡)	Residential/Retail	18,632	48,707	47,317	—	—	47,317	47,317	47,317	2019/04/25	2020/05/31	100%	
109	Acesite County (玖龍郡)	Residential/Retail	39,303	146,835	133,707	—	—	133,707	133,707	133,707	2019/04/12	2021/03/23	100%	
Subtotal			4,348,070	16,342,548	15,273,546	1,408,202	3,467,790	10,397,554	13,865,344	255,504				

Properties Held for Future Development

Projects	Country/City	Use	Site area (sq.m.)	Total GFA (sq.m.)	Total saleable/leasable GFA- (sq.m.)			Total saleable GFA (sq.m.)			Unsold and presold saleable GFA (sq.m.)	Total leasable GFA held as investment (sq.m.)	First launch date	First completion date	Interest attributable to us (%)
					Fin (sq.m.)	Sold (sq.m.)	Pre-sold (sq.m.)	Unsold (sq.m.)	Pre-sold (sq.m.)	Sold (sq.m.)					
110	Logan City (龍光城)	Residential/Retail	483,938	1,426,397	1,426,397	—	—	1,426,397	1,426,397	—	1,426,397	2019/07/05	2019/12/20	100%	
111	Kowloon Bay (葵涌)	Residential/Retail	1,089	3,818	3,818	—	—	3,818	3,818	—	3,818	2020/07/02	2020/06/19	100%	
112	Acsite Castle (葵耀府)	Residential/Retail	591	1,933	1,933	—	—	1,933	1,933	—	1,933	2019/04/23	2020/11/10	100%	
113	Acsite Park/Tonghu Centre (葵耀台/鐘湖中心)	Residential/Retail	74,664	300,221	300,221	—	—	300,221	300,221	—	300,221	2020/04/05	2021/09/27	50%	
114	Kowloon Bay (葵涌)	Residential/Retail	259,333	426,142	426,142	—	—	426,142	426,142	—	426,142	2020/01/15	2024/04/30	100%	
115	Acsite Park (葵耀台)	Residential/Retail	82,078	711,733	663,426	—	—	663,426	663,426	—	663,426	2020/04/13	2022/03/21	100%	
116	Glory Lake (葵譽湖林湖)	Residential/Retail	33,120	131,365	131,365	—	—	131,365	131,365	—	131,365	2019/04/12	2021/01/03	100%	
117	Acsite Mansion (葵耀臺)	Residential/Retail	720	2,429	2,429	—	—	2,429	2,429	—	2,429	2020/09/30	2020/08/30	100%	
118	Logan City (龍光城)	Residential/Retail	812,000	2,205,144	2,205,144	—	—	2,205,144	2,205,144	—	2,205,144	2019/07/13	2020/12/09	100%	
119	Acsite Castle (葵耀府)	Residential/Retail	259,469	659,405	657,405	—	—	657,405	657,405	—	657,405	2019/11/01	2021/01/16	100%	
120	Kangia Project (深圳康佳項目)	Residential/Retail	74,000	225,920	225,920	—	—	225,920	225,920	—	225,920	2021/04/18	2023/03/16	100%	
121	Celestial Jade Bay (天琅灣)	Residential/Retail	659,329	1,481,789	1,481,789	—	—	1,481,789	1,481,789	—	1,481,789	2019/09/22	2021/09/03	80%	
122	Huzhou Palace (惠州天樞)	Residential/Retail	219,000	372,708	372,708	—	—	372,708	372,708	—	372,708	2020/01/16	2021/11/02	100%	
123	Royal & Seaward Bay (御海灣)	Residential/Retail	17,400	72,681	61,703	—	—	61,703	61,703	—	61,703	2019/06/07	2020/08/10	100%	
124	The Cullinan (中山天樞)	Residential/Retail	43,001	159,294	159,294	—	—	159,294	159,294	—	159,294	2019/07/31	2021/04/30	100%	
125	Royal & Seaward Coast (山頂御海岸)	Residential/Retail	31,388	133,088	133,088	—	—	133,088	133,088	—	133,088	2019/10/30	2021/08/30	100%	
126	Sunshine Palace (陽光御府)	Residential/Retail	47,000	236,264	236,264	—	—	236,264	236,264	—	236,264	2019/08/30	2021/03/31	55%	
127	Lake City (湖城天境)	Residential/Retail	11,690	37,664	37,664	—	—	37,664	37,664	—	37,664	2021/08/11	2022/08/06	50%	
128	Royal Waterfront (湖岸御水岸)	Residential/Retail	125,524	719,160	719,160	—	—	719,160	719,160	—	719,160	2019/08/12	2021/05/31	100%	
129	Glory Lake (小樞23畝)	Residential/Retail	23,344	59,516	59,516	—	—	59,516	59,516	—	59,516	2019/11/29	2020/12/16	100%	
130	Xiaolan 23 Acres (小樞23畝)	Residential/Retail	15,000	73,316	73,316	—	—	73,316	73,316	—	73,316	2019/11/01	2020/12/30	100%	
131	Zhaoqing 327 Acres Project (肇慶327畝項目)	Residential/Retail	218,048	1,676,024	1,399,214	—	—	1,399,214	1,399,214	—	1,399,214	2019/09/15	2021/11/11	100%	
132	Yigao 55 Acres (怡高55畝)	Residential/Retail	37,000	114,204	114,204	—	—	114,204	114,204	—	114,204	2019/11/14	2021/02/28	100%	
133	Acsite Hill (葵耀麓)	Residential/Retail	33,000	63,173	63,173	—	—	63,173	63,173	—	63,173	2019/08/23	2020/10/30	100%	
134	Kowloon Bay (葵涌)	Residential/Retail	20,553	52,620	52,620	—	—	52,620	52,620	—	52,620	2019/04/25	2020/05/31	100%	
135	Wan's Lake 57 Acres (河源萬綠湖57畝)	Residential/Retail	38,113	98,680	98,680	—	—	98,680	98,680	—	98,680	2019/12/02	2020/12/20	100%	
136	Dongsheng 63 Acres (東昇63畝)	Residential/Retail	41,730	118,381	118,381	—	—	118,381	118,381	—	118,381	2019/11/08	2021/02/28	100%	
137	Acsite County Phase III (葵耀郡三期)	Residential/Retail	36,819	174,878	171,294	—	—	171,294	171,294	—	171,294	2019/11/26	2021/05/30	100%	
138	Gentlefolk (金玖世家)	Residential/Retail	16,590	88,548	81,404	—	—	81,404	81,404	—	81,404	2019/11/30	2020/12/10	50%	
139	Improvments of Discovery Bay (伊奧倫景灣)	Residential/Retail	37,328	208,376	189,371	—	—	189,371	189,371	—	189,371	2019/08/14	2022/09/23	33%	
140	Acsite Mansion (南海葵耀臺)	Residential/Retail	52,659	212,492	212,492	—	—	212,492	212,492	—	212,492	2019/08/24	2021/05/30	100%	
141	Acsite Castle (葵耀府)	Residential/Retail	15,324	79,100	79,100	—	—	79,100	79,100	—	79,100	2019/11/17	2021/03/25	100%	
142	Acsite County Phase II (葵耀郡二期)	Residential/Retail	32,351	111,384	108,887	—	—	108,887	108,887	—	108,887	2019/07/07	2020/09/30	100%	
143	Dongguan Machong 44 Acres (東莞麻涌44畝)	Residential/Retail	29,500	123,558	123,558	—	—	123,558	123,558	—	123,558	2019/09/03	2020/06/02	25%	
144	Acsite County (葵耀郡)	Residential/Retail	29,054	108,545	103,664	—	—	103,664	103,664	—	103,664	2019/06/21	2021/03/23	100%	
145	Acsite Castle (葵耀府)	Residential/Retail	73,400	259,679	259,679	—	—	259,679	259,679	—	259,679	2019/09/30	2020/11/03	100%	

Projects	Country/City	Use	Site area (sq.m.)	Total saleable/leasable GFA-		Total saleable GFA		Unsold and pre-sold saleable GFA (sq.m.)	Total leasable GFA held as investment (sq.m.)	First launch date	First completion date	Interest attributable to us (%)
				Total GFA (sq.m.)	Fin (sq.m.)	Sold (sq.m.)	Pre-sold (sq.m.)					
146 Accessite Park Phase III (玖龍臺三期)	Nanning	Residential/Retail	15,847	65,851	62,983	—	62,983	62,983	—	2019/06/14	2021/01/28	100%
147 Qianshan 20 Acres (前山20畝)	Zhuhai	Residential/Retail	13,633	48,365	48,365	—	48,365	48,365	—	—	—	100%
148 Hailing Island (陽江海陵島高項目)	Yangjiang	Residential/Retail	361,000	574,400	574,400	—	574,400	574,400	—	—	—	100%
149 Boluo Tangquan 177 Acres (惠州博羅唐田177畝)	Huizhou	Residential/Retail	118,000	420,200	420,200	—	420,200	420,200	—	—	—	100%
150 Others (其他項目)			861,840	3,001,300	3,001,300	—	3,001,300	3,001,300	—	—	—	100%
Subtotal			5,354,487	17,039,980	16,661,263	—	16,661,263	16,661,263	—			
Total			13,888,440	50,112,025	47,167,606	13,772,225	29,308,926	33,395,381	494,397			

Notes:

- (1) Total GFA (including GFA that has been sold) minus car parks, non-saleable areas and public areas.
- (2) The total saleable GFA sold, pre-sold, remaining unsold and total leasable GFA held as investment do not include car parks, non-saleable areas and public areas and have been derived from our internal records.
- (3) Attributable interest is based on our effective ownership interest in the respective project companies.

Description of Our Projects

The map below sets out the cities where we had property projects as of December 31, 2018:



INVESTMENT PROPERTIES

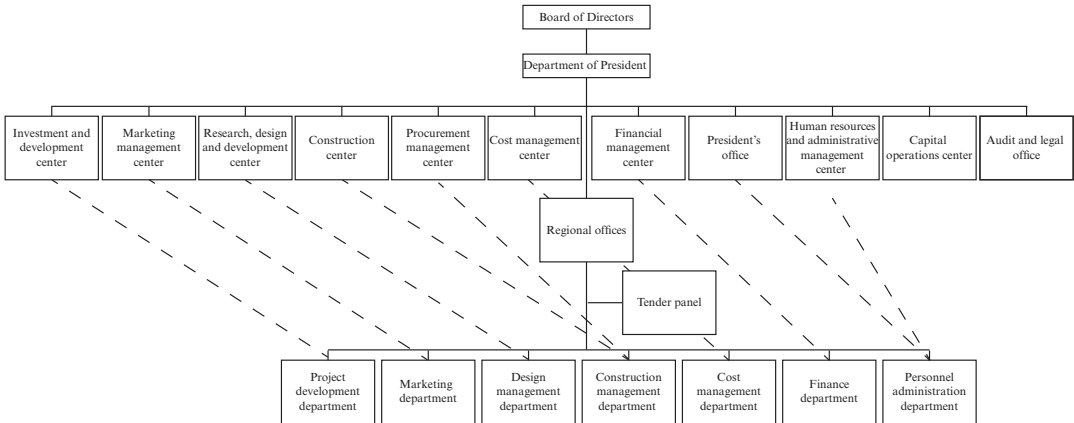
We focus on the development and sales of residential properties. In addition, we hold retail and office units and clubhouses as investment properties for capital appreciation and rental use as an ancillary business. As of December 31, 2018, our total leasable GFA held for investment was 272,962 sq.m. In 2017 and 2018, our rental income (before deducting sales and other taxes) was RMB87.8 million and RMB91.7 million (US\$13.3 million), respectively, accounting for 0.3% and 0.2%, respectively, of our revenue in each of these periods.

In leasing our retail units, we seek to maintain a balance in the composition of our tenants. Our retail leases are generally for terms of three to 15 years with annual rent reviews at fixed percentage increases or as otherwise agreed in the lease agreement. Typically, we require security deposits from our tenants of two months' rent. The rents for our retail units are generally determined according to prevailing market rates. We have appointed Guangdong Logan Group Property Management Co., Ltd. (廣東龍光集團物業管理有限公司) as the initial property manager for our property projects as of December 31, 2018. In addition to rent, our tenants are generally charged a monthly property management fee, which is payable to the property manager.

OUR PROPERTY DEVELOPMENT PROCESS

Property Development Management and Structure

We use a decentralized operations management structure between our headquarters and regional offices, wherein each regional office is responsible for the day-to-day operations of all projects within its respective region, while our corporate headquarters is responsible for overall planning, standardization and the approval of major decisions, as well as monitoring and supporting each regional office’s operations. The chart below shows our general property development management structure:



This property development management structure helps us ensure the efficiency and unity of our strategic decisions, while allowing our regional offices the flexibility to respond to the local environment. In general, our headquarters is responsible for:

- formulating corporate strategy and operations and management goals;
- supervising our operations and information management platform;
- project investment decision making;
- setting human resources policies;
- standardization of design and management processes;
- centralized selection and evaluation of suppliers;
- cost management;
- developing and unifying financial systems;
- risk management and internal audit; and
- brand management and maintenance of customer, investor and government relations.

Our regional offices are responsible for:

- implementing corporate headquarters strategy in the relevant project city;
- conducting project exploration and market research;
- obtaining the relevant government permits;
- formulating and implementing operations and management goals;
- managing the project development process; and
- sales and marketing.

Our headquarters exercises particularly careful control over the key business segments that have a significant impact on our results of operations, including strategic and operational goals, land acquisition, project market positioning, planning and design, target cost management, marketing strategy, general contractor selection, planning and design of ancillary facilities and completion inspection. We coordinate and supervise the operations of each project as a whole through our operations planning department as well as specialized departments for the key project development functions, enhancing our operational management efficiency.

In addition, to ensure our financial independence and increase the efficiency of our use of capital, we have implemented a vertical management structure for the finance departments of our regional offices, and we station staff from our dedicated audit and legal department at each regional office to handle risk management and monitoring of the internal audit process. We believe these initiatives facilitate our project operations management and internal controls.

Our regional offices are responsible for the day-to-day aspects of our project development business. Our regional offices generally establish a project development department, a design management department, a construction management department, a sales department, a cost management department, a finance department and a personnel administration department. These departments report to the corresponding central departments, which support them in their operations.

Project Development Process

We have established a mature project development model and process. In general, our project development process follows the core elements set out below, which may be adjusted for each project in accordance with the local environment and laws and regulations:

	Project selection and land acquisition	Planning and design	Pre-construction	Construction	Marketing	Delivery and after-sales services
Process explanation	<ol style="list-style-type: none"> Analyze target market (economic and regulatory environment, demographics, market capacity and customer demand). Perform feasibility study (including cost estimates, investment analysis and risk assessment), and complete in-depth schematic design and cost estimates. Approval by ad-hoc investment committee. Acquire land through the government land grant process or a third party and obtain land use rights certificate. 	<ol style="list-style-type: none"> Determine project market positioning (including product and customer positions, preliminary planning and valuation). Conduct further in-depth conceptual design and design optimization. Formulate planning and design proposal and allocate design tasks. Use a custom design control platform to manage and monitor design progress and quality. 	<ol style="list-style-type: none"> Obtain relevant permits (including construction land planning permit, construction works planning permit, construction commencement permit). Appoint Logan Construction or another general contractor through tendering. 	<ol style="list-style-type: none"> Conduct construction management in accordance with standardization and control processes and workmanship standards. Monitor development process in real time through project management information platform. Regularly inspect and evaluate construction progress. 	<ol style="list-style-type: none"> Independently develop and implement marketing strategies and conduct promotional activities. Complete project pricing analysis and set prices. Obtain pre-sale permit and begin the sales process. Assist customers with registration and obtaining mortgage loans. 	<ol style="list-style-type: none"> Obtain property ownership certificate and deliver units. Gather and process customer feedback, and collect post-delivery project evaluation for continuous improvement. Manage Logan Club and organize customer events.
Responsible department	Headquarters: investment and development center, research, design and development center, marketing management center and cost management center Regional office: project development department	Headquarters: marketing management center, research, design and development center Regional office: project construction management department and design department	Headquarters: construction center and procurement management center Regional office: Project development department and construction management department	Headquarters: construction center and procurement management center Regional office: construction management department and construction department	Headquarters: marketing management center and brand management department Regional office: marketing department	Headquarters: marketing management center Regional office: marketing department
Whole-process cost	Prepare target cost estimates (feasibility study version)	Prepare target cost estimates (planning version)	Prepare target cost estimates (construction version)	Implement contract planning and cost indicator controls	Conduct project profit	Estimation and cost control

Project Selection

Project selection is the most important and basic step of our project development and operations management processes. We acquired certain land parcels at competitive prices, such as those for Logan City, when the infrastructure and common facilities such as roads, schools or commercial districts had not yet been fully developed in their vicinity.

Before developing a new project, we conduct in-depth research and analysis on the relevant market to identify regional development trends by analyzing market information obtained through a variety of channels, including land supply information obtained through the government land grant process. Our various specialized departments conduct in-depth feasibility analyses of potential projects, providing full support for our investment decision-making process. We also monitor and assess companies with land or projects under development for suitable acquisition or partnership opportunities. Prior to acquiring land, we generally follow these steps in selecting or developing a new project:

- the regional office determines regional investment planning and goals in accordance with our corporate strategy;
- the regional office's project development department gathers and analyzes information and completes a market analysis report in accordance with regional investment planning;
- the regional office's general manager conducts initial review, screening and selection of project proposals;
- submit an initial proposal to our investment and development center, which cooperates closely with our design and marketing teams in evaluation and assessment and performing a feasibility study (including detailed market analysis, development plans and investment budgeting) which, after completing an in-depth conceptual product design, is submitted to our cost management center for target cost and profit estimation; and
- submit a feasibility study and profit estimation to our ad-hoc investment committee for approval.

Land Acquisition

We primarily acquire land for our projects through participation in the government public tender, auction and listing-for-sale land grant processes. In addition, we also acquire land from non-governmental land interest holders pursuant to land transfer agreements and through acquiring companies holding land interests. In accordance with the Regulation on Bidding, Auction and Listing-for-Sale for the Granting of State-owned Construction Land (《招標拍賣掛牌出讓國有建設用地使用權規定》), effective from November 1, 2007, all land planned for development (such as residential property, tourism, entertainment, commercial and industrial property) must be granted through public tender, auctions or listing-for-sale. Grantees of land use rights may dispose of their land use rights through private sales, subject to the terms and conditions of the original land grant contracts and the relevant PRC laws and regulations. We carry out our projects in accordance with the provisions of the relevant PRC laws and regulations.

In 2017 and 2018, we acquired 5.7 million sq.m. and 7.5 million sq.m. of GFA, respectively, and our land premium amounted to RMB25,140 million and RMB21,180.0 million (US\$3,080.5 million), respectively, leading to average land cost of RMB8,637 per sq.m. and RMB3,788.0 (US\$550.9) respectively. Our land premium may continue to rise in the future, and in such event our gross profit margin may be materially and adversely affected.

As of December 31, 2018, we had a land bank with an aggregate GFA of 36.3 million sq.m.. Based on current development and growth targets and our historical sales and land development records, we estimate our land bank will be sufficient for our development needs for the next five to six years.

Planning and Design

To ensure product quality and enhance project value, we have a dedicated product research, design and development center, responsible for organizing project market positioning, planning and design and controlling the implementation thereof, as well as developing and implementing our product standardization system and product innovation. In addition, we also have an in-house design institute responsible for the various design plans of our projects and controlling the implementation thereof, enabling us to achieve synergies with our other capabilities and ensure that each project design meets our standards for quality and efficiency.

Before conducting project planning and design, we collaboratively determine the project's market position generally through our product research, design and development center and marketing management center and the regional office's design department. During the project selection phase, our product research, design and development center participates in the feasibility analysis process and completes an in-depth design plan taking into account the project's individual characteristics, to ensure that construction can begin quickly after successfully obtaining the land for the project. After the land is obtained, our product research, design and development center works with our in-house design institute or an approved design consultant to further develop the design plan. Each regional office's design department determines the detailed design plan and cost estimation and oversees design implementation. We appoint a person responsible for coordinating the activities of our internal specialized design department and external design companies and closely monitoring every aspect of the design process, from planning to the completion of construction, to ensure the strict and efficient implementation of our design plans.

We also work with recognized domestic and international design consultants, according to the planning, market positioning and scale of the project. These partnerships have produced many of our award-winning project designs, such as our Provence project, which was recognized as a "Gold Medal International Cultural Community—Innovative Model Habitat" in 2007.

Pre-construction

We begin the pre-construction process by obtaining the necessary permits and certificates from the relevant government departments prior to the commencement of construction and following the grant of the development rights to a parcel of land. Details of the certificates and permits required to commence construction are set out below:

- construction land planning permit—a permit authorizing a developer to begin the survey, planning and design of a property project;
- construction works planning permit—a permit evidencing government approval of the overall planning and design of a property project and allowing a developer to apply for a construction commencement permit; and
- construction commencement permit—a permit required for commencement of construction of a property project.

As of the date of this offering memorandum, we have obtained the land use rights certificates for all of our projects, except in respect of Sichuan Meishan 100 Mu (四川眉山100畝), Shunde Congle 126 Mu (順德從樂126畝), Jiashan Xitang 60 Mu (嘉善西塘60畝), Guangzhou Panyu 75 Mu (廣州番禺75畝), Nanning Pingle 162 Mu (南寧平樂162畝), Nanning Qingxiu 65 Mu (南寧青秀區65畝) and Nanning Jiangnan 193 Mu (南寧江南區193畝).

Appointment of Logan Construction or Other General Contractor

As part of our fully integrated property development process, we have acted as the general contractor for a majority of our property development projects. Logan Construction, our construction subsidiary, possesses a National Housing Construction General Contracting Class 1 Qualification Certificate (國家房屋建築工程施工總承包一級資質認證), enabling it to continue to act as general contractor for our projects as we expand into additional high-growth cities elsewhere in China.

Key Terms of Our General Contractor Agreements

The agreements under which we are appointed as general contractor delineate our work scope. The project owner supplies us with the design blueprints and geological data, and we are generally responsible for a variety of construction tasks such as earthworks and installation of utilities and equipment. Unless agreed in the agreement or separately, we may not sub-contract our work.

The agreement stipulates a construction commencement date, construction period and expected completion date. Any construction delay may result in financial penalties on us. Generally on a monthly basis, we present to the project owner a construction progress report and a forecast on construction progress and expenditures for the upcoming month. The agreement also contains specific quality requirements, and we may be penalized if we fail to adhere to them.

We are generally paid monthly for a percentage of our work performed during such month. When the construction is completed, the project owner will make additional payments to bring the settled amount to a specified percentage of the total contract value. The remainder of the contract value is retained for up to two years, and is remitted to us in installments, as security for the construction's quality. If any quality issue arises before final remittance, the project owner may deduct directly from the unpaid remainder as compensation. For more information, see the section entitled “—Construction Business” below.

Key Terms of Agreements with Our Contractors

In addition to using Logan Construction as general contractor for a majority of our projects, we also work with a variety of qualified independent contractors and subcontractors to provide services such as labor, general construction, equipment installation, engineering and decoration. We select our contractors based on their relevant experience and reputation, conduct regular evaluations of all our contractors and establish long-term strategic cooperative relationships with outstanding contractors.

In general, the contracts we sign with our contractors contain provisions for quality assurance and the timely completion of projects. We require our contractors comply with the laws and regulations of the PRC and our internal standards. Each level of our construction management closely monitors workmanship quality, construction progress and cost control. If construction quality does not meet our standards, we will refuse to accept such work as completed until we are satisfied that our standards have been met. We generally pay our contractors in accordance with the percentage of completion of the relevant project. Except for up to 5% of the contract price which we withhold for up to five years to better ensure construction quality, we pay our contractors the remaining balance when the construction quality certificate is issued by the relevant government department.

Project Financing

We generally finance the development of our projects primarily through bank loans, internally generated cash flows (including proceeds from the pre-sales and sales of our projects) and funds raised from capital markets, such as our initial public offering in December 2013, the offering of the Existing Notes. According to the Guideline on the Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by the China Banking Regulatory Commission (the “CBRC”) on September 2, 2004, no loans may be granted to projects which have not obtained the relevant land use rights certificates, construction land planning permits, construction works planning permits and construction commencement permits. According to the Notice on Adjusting the Capital Ratio of Fixed Assets Investment Projects of Certain Industries (《國務院關於調整固定資產投資項目資本金比例的通知》) (Guofa [2009] No. 27) issued by the State Council on May 25, 2009, the minimum capital requirement for affordable housing and ordinary commodity apartments is 20%, and the minimum capital requirement for other real estate development projects is 30%.

We primarily use internal funds to acquire land for our projects, and a combination of internal funds and bank loans to fund the construction of our projects. In addition, we use proceeds from the pre-sales of our properties to fund part of the construction costs of the relevant projects and to settle the related bank loans, and we use funds raised from capital markets for acquiring land, refinancing our existing indebtedness and for other general corporate purposes. Proceeds from pre-sales of properties form the integral source of our operating cash inflows during project development. According to the laws of the PRC, we may pre-sell properties under construction after certain criteria are met, and proceeds from the pre-sales must be used for the construction of such properties. Our policy is to finance our property developments with internal resources to the extent practicable so as to reduce our level of external funding.

Bank loans are our primary source of external financing, and we have long-term relationships with many major banks in the PRC, including Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of China. As of December 31, 2018, we had outstanding bank and other loans (excluding the Existing Notes and Corporate Bonds) of RMB21,544.1 million (US\$3,133.5 million). Our ability to obtain financing for our projects also depends on various economic measures introduced by the central and local governments. In recent years, the PRC government has adopted macroeconomic and monetary policies aimed at stabilizing the growth of the national economy, particularly including the regulation and control of the property market, which may influence our ability to obtain financing from commercial banks.

Construction

Construction Management and Quality Control

Our construction management team consists of over 300 professionals. In addition, our headquarters has an operations planning department, which uses hierarchical program management and an information system to exercise real-time control over many aspects of the property development process, enhancing our control over product quality and construction progress.

We use a multi-level supervision model for our projects, the management of which is structured from bottom to top as follows: Logan Construction (or an outside general contractor, as applicable); an independent construction supervision consultant; the project company’s construction management department; the regional office’s construction management department; and our headquarters’ construction management department. The general contractor carries out construction in accordance with the laws and regulations of the PRC and our strict workmanship standards. Each step of the construction process is subject to inspection, and a completion inspection is conducted by all the parties mentioned above. The project company’s construction management department is responsible for supervision of and coordination with the general contractor and independent construction supervision consultant, as well as for the direct inspection of key work processes. The regional office’s construction management department is responsible for providing

supervision and technical support. Our headquarters' construction management department is responsible for improving management systems, conducting technical training, auditing and monitoring construction plans and conducting monthly project assessments during the development process. We have built in an incentive system for the general contractor as part of the monthly project assessments conducted by our headquarters' construction management department in order to align interests during the construction process.

We have a complete construction management system and strict workmanship standards that we implement throughout the construction process. We have developed a comprehensive construction management manual, covering construction quality, progress, costs, safety and materials and equipment supply, among other things, and we strictly require our construction contractors to comply with such standards and procedures, as well as the relevant laws and regulations, in carrying out construction.

The regional office's project management department conducts on-site monitoring and regularly produces an assessment report, and promptly follows up on and implements solutions for any problems discovered. We also appoint an independent third-party construction supervision consultant to assist in controlling construction progress, quality and safety, among other things.

In addition to our close monitoring of construction progress and workmanship quality, we also place strong emphasis on worksite safety and environmental awareness. In 2009, our Logan Century Center project was recognized as a "2008 Guangdong Model Construction Site for Construction and Engineering Safety" by the Construction Industry Safety Association of Guangdong Province, and in 2004, our Sunshine Coast project was recognized as a "Green Ecologically Friendly Residence" by the Planning Department of the Ministry of Housing and Urban-Rural Development and the China Real Estate and Housing Research Association.

Supplier Tendering and Procurement

We procure substantially all of the supplies needed for our projects through our own in-house procurement department. We generally conduct supplier tendering and procurement using our database of suppliers with whom we have established cooperative relationships. Our headquarters' procurement department generally places special emphasis on strategic purchasing for elevators, diesel generators and other large equipment for our projects, and also conducts large-scale, centralized procurement for supplies commonly used between multiple projects. The regional office's procurement department is responsible for determining with the supplier the contract price, payment terms and delivery arrangements, among other things. We believe that centralized procurement allows us to benefit from economies of scale and increased bargaining power with suppliers, thereby reducing costs and bringing greater value to our customers.

We have a comprehensive procurement system composed of our procurement department, cost management department, and related specialized technical departments such as design and engineering. These departments cooperate in assessing and selecting our suppliers. After the completion of the assessments, we select the supplier that best meets our requirements, in accordance with the requirements set forth in the relevant tender documents. We strive to ensure all of the materials that we use comply with relevant standards of quality and contractual requirements before accepting them or making payments for delivery. Materials that do not meet our quality standards are not used in our projects and are returned to suppliers. We evaluate and grade the quality of our supplies on a monthly basis.

Marketing

We have a specialized marketing management team. Our headquarters' marketing management center is responsible for formulating our marketing and sales strategies, conducting market research, managing the overall sales process, managing customer relations and providing sales guidance to sales agents. Each of our regional offices also has a marketing department to formulate sales prices for the properties in their respective regions and marketing and sales promotion strategies and

related cost estimates for implementation after approval by our headquarters. We believe that our dedicated marketing management team assists us in attaining our marketing goals and strategies, while maintaining flexibility in the sales strategy for each project.

Our marketing department is involved in project development from an early stage to ensure the successful execution of our marketing strategy. After we acquire the land for a new project, our marketing management center, together with the relevant regional office, conducts customer, marketing and positioning research with regard to the land, and prepares a detailed project market positioning report. During the planning and design process, the marketing department provides opinions for consideration. The marketing department is also generally responsible for driving customer demand and sales for the project by planning, designing and operating an on-site project exhibition center to demonstrate our products to our customers, as well as planning and implementing a comprehensive project marketing and promotional program through various media outlets. In addition, we have an incentive program to reward employees who successfully refer customers to purchase our products. Our selling and marketing expenses was RMB928.7 million and RMB1,231.4 million (US\$179.1 million) in 2017 and 2018, respectively.

As part of our fully integrated property development process, we generally manage the sales of our property projects through our in-house sales team. In addition, we sell a portion of our property projects through real estate sales agents, selected after careful consideration of the agents' understanding of our projects and relevant regional markets, marketing strategies and their market share. We enter into sales agency agreements with sales agents that meet our criteria, pursuant to which the agents are paid commissions of a certain percentage of their total sales, in accordance with market practice.

Pre-sales and Sales

The sales process for our property projects generally begins with pre-sales. There are various PRC laws and regulations governing the pre-sales of properties that impose conditions to be fulfilled before the required pre-sale permit will be issued and the pre-sales of a property can commence. These include obtaining the relevant land use rights certificate, the construction works planning permit and the construction commencement permit.

Our pre-sales and sales contracts are based on standard form contracts regulated by the relevant land and commercial bureau, and vary from city to city. We did not experience any material cancellation of sales contracts in 2017 and 2018.

Customer Payment Arrangements and Financing

Our customers can generally purchase our properties through lump sum payments or through mortgage loans. Where a customer chooses to pay by lump sum payment, the customer will be required to fully settle the purchase price shortly after the date of the execution of the contract. Where a customer elects to pay by mortgage payment, such customer is required to pay a portion of the purchase price in a cash payment, which is normally 30% to 60% of the total purchase price, and the remaining amount is settled through proceeds from the relevant mortgage. In line with market practice, we have arrangements with various banks for the provision of mortgage facilities to our customers and we provide guarantees for the mortgages until construction has been completed and the relevant property ownership certificates or mortgage registration documents are submitted to the relevant bank. In line with market practice, we rely on credit checks conducted by the relevant bank and do not conduct independent credit checks on our customers. As of December 31, 2018, our outstanding guarantees in respect of our customers' mortgage loans were RMB23,975.5 million (US\$3,487.1 million).

Delivery of Properties

We are committed to the timely delivery of units to our customers in accordance with our sales contracts and PRC laws and regulations. We are only permitted to deliver completed property units after they pass on-site inspections by, and receive completion certificates from, the local urban construction bureaus or equivalent authorities. Before delivering units to our customers, our project companies coordinate the completion inspection of units to be delivered with the construction, marketing and customer relations departments and the relevant property management company, and make any necessary improvements to ensure that customers are satisfied with the units we deliver. Our customer relations department, which is a department under our marketing management center, works to obtain and follow up on customer feedback at the time of delivery to increase customer satisfaction and for the continual improvement of our products and services. We had appointed Guangdong Logan Group Property Management Co., Ltd. (廣東龍光集團物業管理有限公司) to initially manage our property projects as of December 31, 2018.

In general, we assist our customers in applying for property ownership certificates. We may be subject to risks involved in obtaining property ownership certificates. As of December 31, 2018, we had not experienced any material delay in the issuance and delivery of property ownership certificates, any material delay in property delivery under the sales contracts, or any return of delivered properties.

Customer Relations Management

We have a dedicated customer relations management department, which is a department under our marketing management center primarily responsible for promoting our customer-oriented corporate culture and strategy. Our customer relations management department also brings a customer-oriented perspective to our various project development activities, by auditing and improving design drawings, evaluating the reasonableness of costs, and strictly inspecting product quality prior to delivery to our customers. Our customer relations management department is also responsible for the delivery of properties, assisting customers in obtaining property ownership certificates, following up on any product warranty issues, handling customer complaints and sponsoring cultural events for customers. At the same time, our customer relations management department gathers views for product improvement from customer feedback and internal evaluations to improve our product design standards and adjust the requirements of our cost management and construction management departments, to optimize the customer experience and reduce customer risk.

From time to time, we receive customer complaints concerning minor defects on their purchased property units, which often occur in the initial months after delivery, and we believe such complaints are common in our industry. We strive to rectify the minor defects to our customers' satisfaction in accordance with the relevant residential property quality warranties. Moreover, to ensure efficient provision of maintenance services, we have established detailed internal guidelines on repair and maintenance specifications and processes in relation to property units and public facilities within the warranty period. We also have received complaints concerning our marketing, pre-sales and sales practice, which predominantly relate to perceived deficiencies in our staff's etiquette and manners. We strive to continuously improve our staff's professionalism, and have made detailed internal policies on the proper etiquette to interact with our customers. After receiving complaints, our customer relations management department follows our established complaint response policies to (i) record the complaints, (ii) investigate the factual background of the complaints, (iii) coordinate with the responsible departments, such as the marketing department, construction management department, design management department and the project development department, to devise appropriate solutions, and (iv) follow up on subsequent customer feedback after the solutions have been implemented. We strive to address our customers' complaints, and as of December 31, 2018, we had not received material complaints regarding our properties' quality or our marketing, pre-sales and sales practice.

We offer our customers a variety of channels for communication, including email and a telephone hotline, so that our customer relations department is able to follow up on customer comments and complaints related to our products and services. We also regularly conduct customer satisfaction surveys on the quality of our products and services to assist in improving the market positioning, design, marketing strategy and service quality of our projects. Purchasers of our properties can also join our customer membership program, Logan Club (龍光會). We place great emphasis on customer service as we believe it enhances property value for our customers and improves our brand and reputation.

STANDARDIZATION

We use standardized product designs and management processes, wherein the work of our project design, construction, decoration, engineering and procurement departments and project subsidiaries can be replicated efficiently across our projects. These standardized product designs and management processes form the key element of our quick development operation model, through which we seek to efficiently complete the development of our property projects. We believe our standardized product designs and management processes have been essential in allowing us to ensure product and service quality, control costs, shorten development cycles, improve cash flow and maintain profitability.

Design

Central to our standardization process is a standardized product line, illustrated by our portfolio of residential property projects which includes high-rise residential apartments and low-rise garden apartments. Our distinctive product series are generally classified into two styles, neoclassical and art deco, each comprising standardized designs for facades, interior designs and landscaping, as well as standardized parts and materials.

For the clubhouses, marketing centers and retail units in many of our projects, we implement our neoclassical or art deco designs according to the grade and scale of each project. We regularly inspect and assess our projects and make continuous improvements to our project design and standardization based on real use case results to ensure our project designs can be replicated efficiently across projects while maintaining high quality and reliability.

Procurement

Our product design departments generally cooperate with our procurement department on consolidated purchase orders of parts and materials to be used across our projects, enabling us to enter into larger and longer-term supply contracts to achieve economies of scale and consistent product quality. We selectively enter into strategic, long-term supplier relationships in accordance with the actual needs of our projects.

We generally select suppliers for our projects through a standardized bidding and competitive negotiation process, which is completed in close coordinate between our headquarters and the management of each regional office. Our headquarters is responsible for managing our supplier relationships, to ensure fairness, consistency and efficiency in entering into supplier relationships across our regional companies.

Construction

We use a standardized operations management structure and management system across our regional offices, and our regional offices follow standardized guidelines developed by our headquarters, to help ensure we are able to efficiently meet our product quality, pre-sales and sales goals.

Cost Management

We employ standardized cost management processes across our projects and throughout the property development process through our cost management center, which prepares and reviews budgets and tracks project progress through a comprehensive cost management system to provide timely estimates of costs and profits and to align actual and target development costs.

We conduct cost management from the preliminary design stages in order to achieve dynamic cost control over the entire property development process and prepare timely profit estimates. We develop target costs for each major stage of the property development process, comprising a feasibility study version, a planning version and a construction version, and track progress to align actual and target development costs. We begin cost management during project selection and land acquisition stage, and compare the planned cost estimates with our library of historical data and provide design feedback to achieve cost-efficient design. Throughout the property development process, our cost management center reviews expenditures and proposed agreements with suppliers and contractors and proposes changes to achieve dynamic cost control over our projects.

CONSTRUCTION BUSINESS

Logan Construction, our subsidiary, possesses a National Housing Construction General Contracting Class 1 Qualification Certificate (國家房屋建築工程施工總承包一級資質認證), which enables it to provide general contracting services for housing projects in cities throughout the PRC. Logan Construction was established in 2005 primarily to service the projects of our predecessors.

In its role as general contractor for such construction projects, Logan Construction is generally responsible for the day-to-day oversight of the projects, including appointing and managing subcontractors to provide services such as labor, general construction, equipment installation, engineering and decoration, as applicable, and coordinating with the project owner and other relevant parties. As a general contractor, Logan Construction outsources basic construction works, and relies on the construction workers of its subcontractors to carry out such work. For such projects, Logan Construction is also responsible for quality and safety control during the course of construction and Logan Construction maintains accident insurance for workers of Logan Construction as required by PRC laws and regulations. For further details, please see the section entitled “—Insurance” below. For information on our general contractor agreements and our agreements with our subcontractors, please see the section entitled “—Our Property Development Process—Project Development Process—Appointment of Logan Construction or Other General Contractor” below.

During 2017 and 2018, Logan Construction primarily provided construction services to our own projects, and the revenue derived from providing such services amounted to 79.1% and 59.3% of Logan Construction’s total revenue, respectively. During 2017 and 2018, Logan Construction also provided construction services to related companies. Revenue derived from such services amounted to 20.9% and 40.7% of Logan Construction’s total revenue in 2017 and 2018, respectively. Logan Construction has adopted a uniform pricing policy for related companies and independent third-party customers and strives to keep its pricing competitive and in line with market price. In 2017 and 2018, Logan Construction recorded construction income of RMB966.4 million and RMB3,969.6 million (US\$577.4 million), respectively, from construction services provided to external parties, of which 100.0% and 100.0% consisted of construction income from related companies, respectively. Logan Construction acted as general contractor for various of our predecessors’ businesses.

In 2017 and 2018, some of our largest customers were companies controlled by Mr. Kei or his associates. In 2017 and 2018, customers of our construction business accounted for two and five of our five largest customers, respectively. For further details, please see the section entitled “—Suppliers and Customers” below. In 2017 and 2018, Logan Construction provided construction services to our related companies on normal commercial terms and on an arm’s-length basis. Going forward, Logan Construction will prioritize our projects, and may accept new appointments from our related companies to act as general contractor for their property projects.

PROPERTIES USED BY US

Our corporate headquarters is located in Logan Century Center at Room 2002, Tower B, Logan Century Center, south side Xinghua Lu, Bao'an District, Shenzhen, PRC. In addition, we occupy a number of premises through lease arrangements.

SUPPLIERS AND CUSTOMERS

Our major suppliers are construction material suppliers, equipment suppliers and construction contractors. In 2017 and 2018, our five largest suppliers accounted for approximately 12.2% and 20.2% of our total purchases excluding land costs, respectively, and our largest supplier accounted for approximately 3.0% and 7.7% of our total purchases excluding land costs, respectively.

Our major customers are purchasers of residential and commercial properties and customers of our construction business. In 2017 and 2018, our five largest customers accounted for approximately 3.3% and 5.4% of our revenue, respectively, and our largest customer accounted for approximately 1.3% and 1.5% of our revenue, respectively. In the same periods, companies controlled by Mr. Kei or his associates accounted for one and nil, respectively, of our five largest customers. The companies controlled by Mr. Kei or his associates were all customers of our construction business for non-residential projects, such as the construction of public facilities.

COMPETITION

The property market in China is highly fragmented. Our major competitors include large national and regional property developers and overseas developers, including a number of leading Hong Kong property developers, some of which may have better track records and greater financial, land and other resources, broader name recognition and greater economies of scale than us. We compete with them in relation to a number of factors, including the acquisition of land, brand recognition, financial resources, price, product quality, service quality and other factors.

HONORS, AWARDS AND CERTIFICATES

We, together with our predecessors, have received awards from various organizations in the PRC in recognition of, among other things, our brand, environmental and safety standards, financial results and overall reputation in the property development industry in southern China and the PRC. The table below sets forth some of the awards to us and our projects:

<u>Year</u>	<u>Recipient/Project</u>	<u>Honor/Award</u>	<u>Awarding body</u>
2019	Our Group	Top 100 Chinese Real Estate Developers — Top 10 in Profitability (中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2011–2019	Our Group	Top 100 Chinese Real Estate Developers (中國房地產百強企業)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所和中國指數研究院)

<u>Year</u>	<u>Recipient/Project</u>	<u>Honor/Award</u>	<u>Awarding body</u>
2019	Our Group	2019 Best 30 of China Real Estate Developers (2019中國房地產開發企業30強)	Shanghai E-House Real Estate Research Institute (上海易居房地產研究院中國房地產測評中心)
2019	Our Group	Ranked as the 23rd-largest property developer in the PRC by comprehensive strength (中國房地產企業綜合實力排名23位)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2003–2018	Our Group	Top 20 Credible Property Developers of Guangdong (廣東地產資信20強) for 16 years from 2003 to 2018	Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Committee of China Credible Property Enterprises (中國銀行、中國建設銀行、中國工商銀行、中國農業銀行聯合中國地產資信強企交流會)
2017–2018	Our Group	Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2016	Our Group	2016 Best 50 of China Real Estate Developers Brand Value (2016中國房地產開發企業品牌價值50強)	China Real Estate Association; China Real Estate Appraisal (中國房地產業協會；中國房地產測評中心)
2016	Our Group	2016 Top 100 Chinese Real Estate Developers—Top 10 in Profitability (2016中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)

<u>Year</u>	<u>Recipient/Project</u>	<u>Honor/Award</u>	<u>Awarding body</u>
2016	Our Group	Ranked as the 32nd-largest property developer in the PRC by comprehensive strength (中國房地產企業綜合實力排名32位)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2016	Our Group	2016 Forbes Top 50 Asia's Best Big Public Companies (《福布斯》2016年亞太區最佳上市公司50強)	Forbes (《福布斯》)
2015	Our Group	2015 Top 10 Best Investment Value China Mainland Real Estate Company Listed in Hong Kong (2015中國大陸在港上市房地產公司投資價值Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2015	Our Group	2015 Top 100 Chinese Real Estate Developers—Top 10 in Profitability (2015中國房地產百強企業盈利性Top 10)	Enterprise Research Institute of Development Center of the State Council of PRC (國務院發展研究中心企業研究所); Institute of Real Estate Studies of Tsinghua University (清華大學房地產研究所); and China Index Academy (中國指數研究所)
2015	Our Group	2015 Best Investment Value Chinese Real Estate Developer (2015中國最具投資價值地產企業)	Committee of Boao Real Estate Forum (博鰲房地產論壇組委會)
2014	Our Group	Ranked as the 40th-largest property developer in the PRC by comprehensive strength (中國房地產企業綜合實力排名40位)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所、中國指數研究院)

<u>Year</u>	<u>Recipient/Project</u>	<u>Honor/Award</u>	<u>Awarding body</u>
2014	Our Group	Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業—盈利性TOP10)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所、中國指數研究院)
2014	Our Group	Top 50 Chinese Real Estate Developers (中國房地產開發企業50強)	China Real Estate Research Association; China Real Estate Association; China Real Estate Appraisal (中國房地產研究會、中國房地產業協會、中國房地產測評中心)
2014	Our Group	2013 China Real Estate Leadership Summit—Best Investment Value Listed Property Developer (2013中國地產領袖峰會—最具投資價值上市房企)	Shenzhen News and China Real Estate Chamber of Commerce (深圳商報社、全國工商聯房地產商會)
2014	Our Group	2013 Top Property Developer in Huizhou by sales	SouFun (搜房)
2014	Seaward Sunshine	2013 Top Property Project by sales volume	Shantou Property Management Authority (汕頭市房產管理局)
2013	Our Group	2012 China Real Estate Industry Honorable Brand Enterprise (2012中國房地產行業誠信品牌企業)	China Real Estate Industry Association and China Real Estate Investment Research Association (中國房地產產業協會、中國房地產投資研究會)
2013	Our Group	Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業—盈利性TOP10)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所和中國指數研究院)
2013	Logan City	2012 China Urban Area Most Valuable Property (2012中國城市區域最具價值樓盤)	China Real Estate Industry Association and China Real Estate Investment Research Association (中國房地產產業協會、中國房地產投資研究會)

<u>Year</u>	<u>Recipient/Project</u>	<u>Honor/Award</u>	<u>Awarding body</u>
2013	Seaward Sunshine	2012 China Real Estate International Noble Community (2012中國房地產國際化高尚社區)	China Real Estate Industry Association and China Real Estate Investment Research Association (中國房地產產業協會、中國房地產投資研究會)
2012	Logan Estate	Real Top 100 Chinese Real Estate Developers—Top 10 in Profitability (中國房地產百強企業—盈利性TOP10)	Enterprise Institute of the Development Research Center of the State Council of China; Institute of Real Estate Studies of Tsinghua University; and China Index Academy (國務院發展研究中心企業研究所、清華大學房地產研究所和中國指數研究院)
2012	Our Group	Ranked as the 46th-largest property developer in the PRC by sales	China Index Academy (中國指數研究院)
2012	Logan Estate	Real Top 100 Chinese Real Estate Developers—Top 10 in Growth (中國房地產開發企業成長速度10強)	China Real Estate Research Association; China Real Estate Association; China Real Estate Appraisal (中國房地產研究會、中國房地產協會、中國房地產測評中心)
2012	Logan City	2012 Best Livable Property in Shenzhen, Dongguan and Huizhou (2012年深莞惠最佳宜居樓盤)	szhome.com and zhujia.com (深圳房地產信息網、築家)
2011	Logan Estate	Real Top 100 Chinese Real Estate Developers—Top 10 Financing Capabilities (中國房地產百強企業—融資能力TOP10)	China Real Estate Top 10 Research Group (中國房地產Top10研究組)
2011	Logan Estate	Real Top 10 Real Estate Brands in Southern China (中國華南房地產公司品牌價值TOP10)	China Real Estate Top 10 Research Group (中國房地產Top10研究組)

EMPLOYEES

We had 3,219 full-time employees as of December 31, 2018, respectively. The table below sets forth a breakdown of our employees by function, as of and December 31, 2018:

<u>Function</u>	<u>Number of employees</u>
Marketing	838
Investment and operations	67
Research, development and design	710
Cost management	179
Engineering and procurement	549
Audit and supervision	24
Integrated management	852
Total	<u>3,219</u>

Note:

(1) As Logan Construction only acts as general contractor, we outsource basic construction works, and rely on the construction workers of our subcontractors to carry out such work.

We enter into individual employment contracts with our employees covering matters such as wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination. These employment contracts generally have a term of three years, after which we evaluate renewal based on a performance appraisal.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their position. Our sales staff is also eligible for commissions. In addition, quarterly and year-end bonuses may also be awarded to our employees, at our discretion and based on employee performance. Quarterly and yearly performance appraisals are conducted to ensure that our employees receive feedback on their performance.

We continue to provide training for our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards. We believe we have maintained good working relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. As of December 31, 2018, no significant labor disputes occurred which adversely affected or were likely to have an adverse effect on our business.

INSURANCE

We carry employer’s liability insurance for medical and related expenses that our employees may incur as a result of personal injuries at their workplaces or on the construction sites of our property developments. However, property developers are not required under national or local laws or regulations to maintain insurance coverage in respect of their property development operations. We do not maintain insurance coverage on our properties developed for sales other than with respect to those developments over which our lending banks have security interests, or for which we are required to maintain insurance coverage under the relevant loan agreements. We also do not require the construction companies we engage to maintain insurance coverage on properties under construction. As we construct most of our property projects through our subsidiary, Logan Construction, we are responsible for quality and safety control during the course of construction and we maintain accident insurance for workers of Logan Construction as required by PRC laws and regulations. Independent construction companies hired during our construction projects are required to maintain their own accident insurance pursuant to PRC laws and regulations, and we also carry construction group accidental injury insurance, which generally covers injuries occurring within the construction areas of our projects.

To help ensure construction quality and safety, we have a set of standards and specifications that we require both our own workers as well as workers employed by independent construction companies to follow during the construction process. In addition, we engage qualified supervision companies to oversee the construction process. We did not experience any material destruction of or damage to our property developments, and there were no material personal injury-related claims brought against us in 2017 and 2018.

ENVIRONMENTAL MATTERS

We are subject to certain laws and regulations concerning the protection of the environment. The particular environmental laws and regulations that apply to any given property development project vary according to its location, the environmental factors associated with such development, construction or operations and the current and future usage of the land and the properties.

SOCIAL, HEALTH AND SAFETY MATTERS

Property developers in the PRC are subject to various PRC laws and regulations with respect to labor, health, safety, insurance and accidents, including the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), Regulations on Work-related Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Trial Procedures for Childbirth Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

In 2017 and 2018, we did not violate any applicable PRC social, health and safety regulations in any material respect. We have complied with the new PRC labor laws in all material respects in the past and will continue to do so and do not expect any non-compliance to affect our business operations in any material respect. We believe that by protecting the interests of our employees, we are able to enhance employee morale and improve our long-term retention rate of quality personnel.

In order to comply with the relevant laws and regulations, we participate in various defined retirement contribution plans organized by the PRC provincial and municipal governments for our employees. We pay on behalf of our employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, industrial injury insurance, maternity insurance and housing provident fund. Our human resources department personnel look after our social, health and safety issues. They generally have sound knowledge of administration on employment and related matters and are aware of the latest legal developments in this area and our compliance with the relevant requirements.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property forms an integral basis for our strong brand recognition and is important to our business. As of December 31, 2018, intellectual property material to our business consisted of 93 trademarks registered in the PRC, 27 trademarks registered in Hong Kong.

As of December 31, 2018, we were not aware of any infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us.

LEGAL PROCEEDINGS AND COMPLIANCE

We are in compliance in all material respects with the applicable laws and regulations in all jurisdictions where we operate businesses. We have obtained all material approvals, permits, licenses and certificates for our operations from the relevant government authorities, all of which are valid and current or to be renewed upon its expiry. We have not been subject to significant fines or legal action involving non-compliance with any laws or regulations relating to our business. So far as we are aware, there are no pending or threatened actions against us by any regulatory authority in the PRC.

From time to time we may be involved in legal proceedings or disputes in the ordinary course of business, including claims relating to our guarantees for the mortgage loans we provide to our customers and contract disputes with our customers and suppliers. We are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. We are not aware of any material disputes with any parties or disagreements with regulatory bodies as of the date of this offering memorandum.

REGULATION

The following is a summary of PRC laws and regulations relating to the various aspects of the property sector in China, including:

- Establishment of property development enterprises;
- Foreign-invested property development enterprises;
- Qualifications of property developers;
- Development of property projects;
- Property transactions;
- Property financing;
- Insurance of property projects;
- Major taxes applicable to property developers;
- Measures on stabilizing housing prices;
- Environmental protection;
- Overseas listing; and
- Foreign exchange control.

ESTABLISHMENT OF PROPERTY DEVELOPMENT ENTERPRISES

Pursuant to the Urban Property Administration Law of the PRC (《中華人民共和國城市房地產管理法》) (Decree No. 72 of the President) (the “Urban Property Law”) promulgated by the Standing Committee of the National People’s Congress on July 5, 1994, which became effective on January 1, 1995 and was amended on August 30, 2007 and August 27, 2009, a property development enterprise (or “property developer”), is defined as an enterprise which engages in development and sales of property for the purpose of making profit.

Pursuant to the Regulations on Administration of Development of Urban Property (《城市房地產開發經營管理條例》) (Decree No. 248 of the State Council) (“Development Regulations”) promulgated by the State Council, which became effective on July 20, 1998 and was amended on January 8, 2011, March 19, 2018 and March 24, 2019, an enterprise which is to engage in the development of property shall satisfy the following requirements:

- it shall have registered capital no less than RMB1,000,000; and
- it shall have at least four full-time professional property/construction technicians and at least two full-time accounting officers, each of whom shall hold the relevant qualification certificate.

Pursuant to the Development Regulations, the local people’s government of a province, autonomous region and/or provincial-level municipality may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a property developer.

Pursuant to the Development Regulations, application for registration shall be submitted to the department of administration for industry and commerce for the establishment of a property development enterprise. The property developer must file for record with the property development authority in the location of the registration authority, within 30 days of the receipt of its business license.

Pursuant to the Notice of the State Council on Adjusting the Capital Ratio for Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) (Guofa [2009] No. 27), issued by the State Council, which became effective on May 25, 2009, the minimum capital ratio for ordinary commodity housing projects and affordable housing projects was reduced to 20%, while that for other property projects was decreased to 30%.

Pursuant to the Notice of the State Council on Adjusting and Improving the Capital System of Fixed Asset Investment Projects (《國務院關於調整和完善固定資產投資項目資本金制度的通知》) (Guofa [2015] No. 51), issued by the State Council, which became effective on September 9, 2015, the minimum capital proportion of government-subsidized housing and ordinary commodity housing projects shall remain unchanged at 20%, and that of other real estate development projects shall be adjusted from 30% to 25%.

FOREIGN-INVESTED PROPERTY DEVELOPMENT ENTERPRISES

Pursuant to the new Foreign Investment Industrial Guidance Catalog (2007 Revision) (《外商投資產業指導目錄(2007年修訂)》) (Decree No. 57 of the National Development and Reform Commission of the PRC (“NDRC”) and the MOFCOM) jointly promulgated by MOFCOM and NDRC on October 31, 2007, which became effective on December 1, 2007, the development and construction of ordinary residential houses was removed from the category of industries in which foreign investment is encouraged to the category of industries in which foreign investment is permitted. In addition, the category of industries in which foreign investment is subject to restrictions (the “restricted category”) has been adjusted as follows:

- the development of large-scale land, which shall be operated only by Sino-foreign joint ventures or Sino-foreign cooperative ventures;
- the construction and operation of upscale hotels, villas, premium office buildings and international conference centers; and
- the secondary property market and housing agents or brokerages.

The construction and operation of large scale theme parks was removed from the property industry to the culture, sports and entertainment industries, which are still in the restricted category.

Pursuant to the new Foreign Investment Industrial Guidance Catalog (2011 Revision) (《外商投資產業指導目錄(2011年修訂)》) (Decree No. 12 of NDRC and MOFCOM) jointly promulgated by MOFCOM and NDRC on December 24, 2011, which became effective on January 30, 2012, the development and construction of villas was removed from the restricted category to the category of industries in which foreign investment is prohibited (the “prohibited category”), and the restricted category has been adjusted as the following:

- the development of large scale of land lots which shall be operated only by Sino-foreign joint venture or Sino-foreign co-operative venture;
- the construction and operation of upscale hotels, premium office buildings and international conference centers; and
- the secondary property market and housing agents or brokerages.

The new Foreign Investment Industrial Guidance Catalog (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) (Decree No. 22 of NDRC and MOFCOM) jointly promulgated by MOFCOM and NDRC on March 10, 2015, was issued and supersedes the 2011 Revision. Compared with its 2011 revision, the development of tracts of land, the construction and operation of high-end hotels, office buildings, international conference centers, and real estate intermediary/agency business have been removed from restricted category, with the construction and operation of large-scale scheme parks remaining in the category. The latest version of the new Foreign Investment Industrial Guidance Catalog is of 2017 Revision (《外商投資產業指導目錄(2017年修訂)》) (Decree No. 4 of NDRC and MOFCOM) jointly promulgated by MOFCOM and NDRC on June 28, 2017, and executed on July 28, 2017. The latest version has further removed the construction and operation of large-scale scheme parks.

Pursuant to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market (《關於規範房地產市場外資准入和管理的意見》) (Jianzhufang [2006] No. 171) jointly promulgated and implemented by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) or its predecessor, the Ministry of Construction of the PRC (中國建設部) (“MOHURD”), MOFCOM, NDRC, PBOC, SAIC and SAFE on July 11, 2006 and partly amended by the Notice on the Adjusting Policies on the Admittance and Administration of Foreign Capital in the Property Market (《關於調整房地產市場外資准入和管理有關政策的通知》) (Jianfang [2015] No. 122) jointly issued by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), MOFCOM, the NDRC, the PBOC, SAIC and SAFE on August 19, 2015, the admittance and administration of foreign capital in the property market must comply with the following requirements:

- an overseas institution or individual shall, when investing in China to purchase any not-for-self-use property, abide by the principles of commercial presence and apply, according to the relevant provisions on foreign investment in property, to establish a foreign investment enterprise and may, upon obtaining the approval of the relevant department as well as completing the relevant registration, engage in the relevant operation according to its approved business scope;
- an overseas investor that has not obtained an approval certificate of foreign-invested enterprises or a business license shall not engage in any development or operation of property;
- as to a foreign-invested property enterprise with the total investment amount of 3 million USD or less, its registered capital shall be at least 70 percent of its total investment; Where the total investment is between 3 million USD and 10 million USD (10 million USD inclusive), its registered capital shall be at least half of its total investment; Where the total investment of such an enterprise is less than 4.2 million USD, its registered capital shall not be less than 2.1 million USD; Where the total investment is between 10 million USD and 30 million USD (30 million USD inclusive), its registered capital shall be at least 40 percent of its total investment; Where the total investment is less than 12.5 million USD, its registered capital may not be less than 5 million USD. Where the total investment exceeds 30 million USD, its registered capital shall be at least one-third of its total investment and where the total investment of such an enterprise is less than 36 million USD, its total investment may not be less than 12 million USD;
- as to the establishment of a foreign-invested property enterprise, MOFCOM or relevant local counter-parts and SAIC or relevant local counter-parts shall grant an approval for establishment according to law, handle the relevant formalities for registration and issue a one-year term approval certificate of foreign-invested enterprises and business license. Where an enterprise fully contributes its transfer fee of the right to land use, it can, upon the strength of the aforesaid certificates, go to the administrative department of land to apply for a use certificate of state-owned land and may obtain an official approval certificate of foreign-invested enterprises in the MOFCOM or relevant local counter-parts

on strength of the said use certificate of state-owned land and thereafter, obtain a business license with a term the same as the approval certificate of foreign-invested enterprises and then go through registration in the taxation authority; and

- the transfer of shares in and projects of foreign-invested property enterprises as well as the acquisition of domestic property enterprises by overseas investors shall be subject to the examination and approval of MOFCOM or relevant local counterparts, among others, in strict accordance with the relevant laws and regulations. An investor shall submit the guarantee letters for performance of the contract on the transfer of state-owned land use right, the license for the planning of construction land and the license for the planning of construction projects and the use certificate of state-owned land, certification on the alteration of archival files in the administrative department of construction (property) as well as the relevant certification materials of tax return as produced by the taxation authority.

Pursuant to the Circular of the General Office of the MOFCOM on Relevant Issues Concerning the Implementation of the Opinions Concerning Regulating the Access to and Administration of Foreign Investment in the Property Market (《商務部辦公室關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉有關問題的通知》) jointly promulgated and implemented by MOFCOM on August 14, 2006, where the amount of investment of a property enterprise established by foreign investment is not less than US\$10 million, its registered capital shall not be less than 50% of its amount of investment; if the investment amount is more than US\$3 million but less than US\$10 million, its registered capital shall not be less than 50% of its amount of investment; if the investment amount is not more than US\$3 million, its registered capital shall not be less than 70% of its amount of investment. Where an overseas investor merges domestic property enterprises through equity transfer or any other means, it shall make appropriate arrangements for the relevant employees, settle the bank debts and pay the transfer fee with its self-owned capital in a one-off manner within three months as of the day the business license of the foreign-invested enterprise was issued. Where an overseas investor acquires the equities of the Chinese party of a foreign-invested property enterprise, it shall make appropriate arrangements for the relevant employees, settle the bank debts and pay the transfer fee with its self-owned capital in a one-off manner within three months as of the day the equity transfer agreement came into force.

The Notice Concerning Further Strengthening and Regulating the Examination, Approval and Supervision of Direct Foreign Investment in Property (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) (Shangzihan [2007] No. 50) jointly issued and implemented by MOFCOM and SAFE on May 23, 2007, and partly amended by the Decision of the Ministry of Commerce on Amending Some Rules and Regulatory Documents (《商務部關於修改部分規章和規範性文件的決定》) MOFCOM [2015] No. 2) issued by MOFCOM on October 28, 2015, provides stricter control measures, among other things, as follows:

- foreign investment in the property sector in the PRC relating to upscale properties should be strictly controlled;
- an applicant for establishing a property company shall acquire the land use right or the ownership of real property or building, or conclude a contract on the advance assignment/purchase of the land use right or building property right with the relevant administrative department of land, land developer or owner of the building property right. The examining and approving organ may not approve the application of any applicant that fails to satisfy the above-mentioned requirement;
- where an established foreign-invested enterprise intends to enter the property development or operation business or where a foreign-invested property enterprise intends to engage in a new property development or operation project, it shall apply to the examining and approving organ for extending its business scope or enlarging its business scale in accordance with the relevant laws and regulations governing foreign investment;

- the merger of or investment in domestic property enterprises by way of return on investment (including the same actual controller) shall be placed under strict control. No overseas investor may avoid subjecting its foreign investment in the property industry to examination and approval by means of changing the actual controller of any domestic property enterprise. Where the administrative department of foreign exchange discovers that any foreign-invested property enterprise is illegally established through illegal means as malicious evasion or false statement, the department shall investigate its activities involving the illegal outward remittance of capital and income therefrom and subject it to the liabilities for obtaining foreign currency under false pretenses and not turning over foreign currency owed to the government;
- overseas investors engaging in the property development or operation business in China shall observe the principle of commercial presence, apply for establishing foreign-invested property enterprises according to law and engage in the relevant business within the authorized business scope. Neither the Chinese party nor the foreign party of any foreign-invested property enterprise may enter into any clause directly or indirectly ensuring a fixed return for either party;
- local examining and approving organs shall file the approval of the establishment of foreign-invested property enterprises with MOFCOM for record in a timely manner according to law;
- no administrative department of foreign exchange or designated bank of foreign exchange may handle formalities for the sales and settlement of foreign exchange under the capital account for any foreign-invested property enterprise that fails to go through the formalities for filing with the MOFCOM for record; and
- where any local examining and approving department illegally approves the establishment of any foreign-invested property enterprise, the MOFCOM shall find out the violation and give punishment accordingly to correct it. No administrative department of foreign exchange may handle formalities for foreign exchange registration for any illegally established foreign-invested property enterprise.

Pursuant to the Notice on Proper Handling of Archival Documents for Foreign Investment in the Property Industry (《商務部關於做好外商投資房地產業備案工作的通知》) (Shangzihan [2008] No. 23) issued by MOFCOM on June 18, 2008, the competent departments of commerce at the provincial level are authorized to verify the materials for archiving as submitted by the foreign-invested property enterprise, and MOFCOM together with other departments of the State Council shall conduct spot-checks over the above enterprises.

Pursuant to the Several Opinions on the Sound Development of the Property Market (《國務院辦公廳關於促進房地產市場健康發展的若干意見》) (Guobanfa [2008] No. 131) promulgated by the General Office of the State Council on December 20, 2008, in order to speed up the development of social security housing, encourage purchases of properties for self-use, and direct property developers to actively cope with the changing market, the following measures will be adopted to facilitate the development of properties:

- increasing credit financing support to ordinary residential housing developments of low to medium level prices or of small to medium sizes, particularly those under construction;
- providing financial support and other related services to property developers with good credit standing for their merger and acquisition activities;
- developing pilot housing provident fund and providing various funding channels;
- supporting bond issuances by property developers with good credit and financial positions; and

- eliminating urban property tax, and unifying the property taxes applicable to domestic and foreign-invested enterprises and individuals, who will all be subject to the PRC Tentative Regulations on Property Tax (《中華人民共和國房產稅暫行條例》).

Pursuant to the Several Opinions of the State Council for Further Improving the Utilization of Foreign Investment (《國務院關於進一步做好利用外資工作的若干意見》) (Guofa [2010] No. 9) issued by the State Council on April 6, 2010, foreign-invested projects with a total investment not exceeding US\$300 million within the encouraged or permitted category, other than those requiring the approval of relevant authorities under the State Council according to the Foreign Investment Industrial Guidance Catalog (《外商投資產業指導目錄》), may be examined and approved by the competent authorities of the local departments. Pursuant to the Circular on Issues Concerning the Authorization for the Review and Approval of Foreign Investment (《關於下放外商投資審批權限有關問題的通知》) (Shangzifa [2010] No. 209) promulgated by MOFCOM on June 10, 2010, the establishment and change of registration of foreign-invested enterprises with a total investment not exceeding US\$300 million within the encouraged or permitted category, and with a total investment of no more than US\$50 million within the restricted category may be examined and approved by the competent authorities of MOFCOM at the provincial level.

Under the “Measures for the Administration of the Approval and Record Filing of Foreign Investment Projects” (外商投資項目核准和備案管理辦法) promulgated by NDRC on May 17, 2014 and enforced on June 17, 2014, and revised and enforced on December 27, 2014 and “Notice of the State Council on Issuing the Catalog of Investment Projects Approved by the Government (2016 Version)” (國務院關於發佈政府核准的投資項目目錄(2016年本)的通知), NDRC is responsible for the approval of restricted projects with a total investment (including capital increase) of US\$300 million and above under the Guidance Catalog. Projects with a total investment (including capital increase) of US\$2,000 million and above shall be filed with the State Council. Provincial governments are responsible for the approval of the restricted projects with a total investment (including capital increase) of not more than US\$300 million under the Guidance Catalog. On January 14, 2017, NDRC issued the “Circular on Effectively Implementing Foreign Capital-related Work in the Catalog of Investment Projects Subject to Governmental Approval (2016 Version)” (關於做好貫徹落實《政府核准的投資項目目錄(2016年本)》有關外資工作的通知), according to which, 1) any project of the restricted category with a total investment (including capital increase) for US\$300 million or above as included in the Guidance Catalog shall be approved by NDRC, and any project with a total investment (including capital increase) for US\$2 billion and above shall be submitted to the State Council for filing, 2) any project of the restricted category with a total investment (including capital increase) for less than US\$300 million as included in the Guidance Catalog shall be approved by the provincial government, and 3) the foreign investment projects beyond the scope of projects subject to approval and not in the prohibited category as provided in the Guidance Catalog shall be presented to local development and reform commissions for filing.

On September 3, 2016, the National People’s Congress Standing Committee (NPCSC) adopted a decision on amending the law of foreign invested companies which became effective from October 1, 2016. Upon the effectiveness of the decision, the establishment of the foreign invested enterprise and its subsequent changes will be required to be filed with the relevant authorities instead of obtaining approvals from relevant commerce authorities as required by the existing PRC laws, except for the foreign invested enterprises which are subject to the special administrative measures regarding foreign investment entry. On September 30, 2016, the State Administration for Industry & Commerce issued a circular on relevant issues of the registration of foreign invested enterprises to implement the decision of NPCSC. On October 8, 2016, NDRC and MOFCOM jointly issued a notice according to which the industries falling within the categories in which foreign investment is prohibited or restricted and those falling within the encouraged category subject to relevant requirements of equity or senior management under the Guidance Catalog, will be subject to the special administrative measures for foreign investment entry. On the same day, MOFCOM promulgated the “Provisional Measures for Filing Administration of Establishment and Changes of

Foreign-invested Enterprises” (外商投資企業設立及變更備案管理暫行辦法). On July 30, 2017 MOFCOM issued the revised Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprises, which was further revised on July 29, 2018..

QUALIFICATIONS OF PROPERTY DEVELOPERS

Classification and Assessment of the Qualifications of Property Development Enterprises

Pursuant to the Development Regulations, a property developer must file for record its establishment to the property development authority in the location of the registration authority within 30 days after receiving its business license. The property development authority shall assess the qualifications of the property developer based on its assets, professional personnel and development and operational records. A property development enterprise shall only engage in property development projects in compliance with its approved qualification.

Pursuant to the Provisions on Administration of Qualifications of Property developers (“Provisions on Administration of Qualifications”) (《房地產開發企業資質管理規定》) promulgated by MOHURD, which came into effect on March 29, 2000, and partly amended by the Decision of the Ministry of Housing and Urban-Rural Development on Amending the Provisions on the Administration of the Qualifications of Real Estate Development Enterprises and Other Departmental Rules (《住房和城鄉建設部關於修改《房地產開發企業資質管理規定》等部門規章的決定》) (MOHURD No. 24) issued by MOHURD on May 4, 2015, a property developer shall apply for registration of its qualifications according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and operation of property without a qualification classification certificate for property development. In accordance with the Provisions on Administration of Qualifications, qualifications of property development enterprises are classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification should be examined and approved by the corresponding authorities. After a newly established property developer reports its establishment to the property development authority, the latter shall issue a provisional qualification certificate to an eligible property developer within 30 days of receipt of the report. The provisional qualification certificate shall be effective for one year from the date of its issuance. The property development authority can extend the validity period for not more than two years after considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before the expiry of the provisional qualification certificate.

Business Scope of Property Developers

Pursuant to the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and operation of property within its approved scope of business and may not engage in business which falls outside its approved scope. A class 1 property developer may undertake property development projects anywhere in the PRC without any limit on the scale of such projects. A property developer of class 2 or lower may undertake projects with a GFA not exceeding 250,000 sq.m., and the specific scopes of business shall be as formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality.

Annual Qualification Review of Property Developers

Pursuant to Provisions on Administration of Qualifications, the qualifications of property developers should be annually reviewed. The construction authority under the State Council or the entrusted institution is responsible for carrying out the annual review of class 1 property developers’ qualifications. Procedures for the annual review of the qualifications of property developers of class 2 or lower qualifications shall be formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality.

DEVELOPMENT OF PROPERTY PROJECTS

Land for Property Development

The Provisional Regulations on the Grant and Transfer of Right to Use State-owned Land in Urban Areas 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》) (Decree No. 55 of the State Council) (“Provisional Regulations on Grant and Transfer”), promulgated and implemented by the State Council on May 19, 1990, adopted a system of granting and transferring the rights to use state-owned land. Pursuant to these regulations, the PRC government, in accordance with the principle of land ownership being separate from land use rights, implemented a system whereby the right to use state-owned land in urban areas may be assigned and transferred, with the exclusion of underground resources, objects buried underground, and public works. The term “state-owned land in urban areas” as used in the preceding paragraph refers to land owned by the public within the limits of cities, county sites, administrative towns and industrial and mining areas. The assignment of land use rights refers to the act of the PRC government as the owner of the land who, with a term of a certain number of years, assigns the right to use the land to land users, who shall in turn pay fees for the assignment thereof to the PRC government. An assignment contract shall be signed for assignment of the land use rights. The maximum term with respect to the assigned land use rights shall be determined based on type of use as listed below:

- 70 years for residential purposes;
- 50 years for industrial purposes;
- 50 years for the purposes of education, science, culture, public health and physical education;
- 40 years for commercial, tourist and recreational purposes; and
- 50 years for comprehensive utilization or other purposes.

Pursuant to the Provisional Regulations on Grant and Transfer, the land user shall, within 60 days of the signing of the land use right grant contract, pay the total amount of the assignment fee thereof, failing which, the assigning party shall have the right to terminate the contract and may claim compensation for breach of contract. After paying the total fee for the assignment of the land use right, the land user shall, in accordance with the relevant provisions, register the land use right, obtain the land use rights certificate and accordingly the right to the use of the land.

Pursuant to the Notice on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use for Construction Projects in Urban Areas (《關於加強城市建設用地審查報批工作有關問題的通知》) (Guotuzifa [2003] No. 345) (“Land Use Approval Notice”) issued by the Ministry of Land and Resources on September 4, 2003, commencing from the date of the issuance of the Land Use Approval Notice, land use for luxury commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped. From the date of the issuance of this notice, with respect to land use for construction projects submitted to the State Council for approval and relating to land for property development, a written statement regarding the status of utilization of the approved land for property development, and supply and demand information of the relevant city’s property market, property prices and vacancy rates shall be made.

The Notice on Strengthening the Administration of Idle Land promulgated by the Ministry of Land and Resources on September 8, 2007 (《關於加大閒置土地處置力度的通知》) (Guotuzidianfa [2007] No. 36) provides that land use rights certificates shall not be issued before the land grant premium has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

The Regulation on Bidding, Auction and Listing-for-Sale for the Granting of State-Owned Construction Land (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the Ministry of Land and Resources on September 28, 2007, which became effective on November 1, 2007, provides that:

- with respect to land for industrial, commercial, tourism, entertainment, commodity housing or other business operations, or on which there are two or more intended land users, the assignment thereof shall be conducted through public tender, auction or listing-for-sale. Land for industrial use includes the land for storage but excludes the land for mining;
- a grantee shall not apply for land registration or be granted the certificate of state-owned construction land use right until it has paid the land premium in full in accordance with the land use right grant contract;
- a grantor shall, at least 20 days before bid invitation, auction or quotation, release the announcement on public tender, auction or listing-for-sale at the tangible land market or at the designated place or mass media, and announce the basic conditions about the land for the assignment through public tender, auction or listing-for-sale as well as the time and place for public tender, auction or listing-for-sale;
- after a successful grantee is determined through public tender, auction or listing-for-sale, the bidding deposit paid by such grantee shall be used as the earnest money for land assignment. The grantor shall send out a notice of successful bid to the successful grantee or conclude a transaction confirmation letter with such grantee; and
- a grantee of a public tender, auction or listing-for-sale shall conclude a contract on the assignment of state-owned construction land use right with the grantor at the time stipulated in the notice of successful bid or transaction confirmation letter. The deposit for bidding or competitive purchase as paid by a winner of bidding, auction or quotation shall be taken as the land assignment fee. The deposits as submitted by other bidders or competitive buyers shall be refunded by the grantor within five working days upon conclusion of public tender, auction or listing-for-sale, without interest.

Pursuant to the Notice on Issues Regarding Further Increasing Supply and Strengthening Control of Lands for Property Development (《關於加強房地產用地供應和監管有關問題的通知》) (Guotuzifa [2010] No. 34) promulgated by the Ministry of Land and Resources on March 8, 2010, at least 70% of total land supply must be reserved for economically affordable housing, redevelopment of shanty towns and small to medium-sized residential units for self-use while land supply for large residential units will be strictly controlled and no land shall be provided for villa projects. The land premium must not less than 70% of the standard land premium of the applicable category of land and the bid deposit paid by the property developer must not less than 20% of the minimum land premium. The land grant contract must be executed within 10 working days after the land transaction is confirmed. The minimum down payment of the land premium will be 50% and must be paid within one month after the execution of the land grant contract. The remainder of the land premium must be paid in accordance with the agreement within one year. If the land grant contract is not executed in accordance with the requirements above, the land will not be handed over and the deposit will not be returned. If no land premium is paid after the execution of the land grant contract, the land must be withdrawn.

Pursuant to the Notice on Further Strengthening the Control and Regulation of Land and Construction Project of Property Development (《關於進一步加強房地產用地和建設管理調控的通知》) (Guotuzifa [2010] No. 151) jointly promulgated by the Ministry of Land and Resources and the MOHURD on September 21, 2010, standard average floor area and structure proportion of ordinary residential housing developments of small to medium sizes shall be expressly specified. The Notice also strictly limits the development and construction of low-density and large-size residential projects, and requires that the plot ratio of residential projects shall be more than one. The Ministry

of Land and Resources requires that other than providing valid identity certificates and deposits for bidding, participants of auctions and listings-for-sale of land shall provide a commitment letter pledging that such deposit was not funded by means of a bank loan, shareholder loan, re-lending or raised funds, as well as a credit certificate issued by a commercial bank.

On May 22, 2014, the Ministry of Land and Resources of the PRC promulgated the Regulations on the Economical and Intensive Use of Land (節約集約利用土地規定), which became effective on September 1, 2014 and established the most stringent system of arable land protection and economical and intensive use of land.

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

Resettlement

Pursuant to the Regulation on Expropriation of and Compensation for Buildings on State-owned Land (《國有土地上房屋徵收與補償條例》) (Decree No. 590 of the State Council) promulgated by the State Council on January 21, 2011 (“Expropriation and Compensation Regulation”), compensation shall be paid before the resettlement. The entity responsible for expropriation shall enter into a compensation agreement with the affected residents, which shall contain the method, amount and payment period of compensation, the location and size of housing where the residents are to be resettled, costs of removal, temporary settlement subsidy or temporary housing, loss caused by production or business suspension, relocation period, method and period of transition and other relevant matters. After entering into the agreement, either party may initiate proceedings according to the relevant law if another party fails to fulfill their obligations prescribed in the compensation agreement. If the entity responsible for expropriation and the affected residents fail to reach an agreement within the specified period according to the expropriation and compensation proposal, or if the title ownership of the housing to be expropriated is uncertain, the entity responsible for expropriation may report to the people’s government of the relevant city or county which made the expropriation decision to determine the compensation in accordance with the compensation proposal pursuant to the Expropriation and Compensation Regulation, and a relevant announcement shall be made within the area of the buildings to be expropriated. The entity responsible for expropriation shall file the expropriation and compensation for record, and post an announcement regarding the compensation payable to each housing unit within the area of the buildings being expropriated.

Idle Land

Pursuant to the Measures for the Disposal of Idle Land (《閒置土地處置辦法》) (Decree No. 53 of Ministry of Land and Resources) promulgated by Ministry of Land and Resources on April 28, 1999 and was amended on June 1, 2012, which became effective on July 1, 2012, “idle land” shall mean any state-owned land for construction use, of which the holder of the land use right fails to begin construction and development thereof within one year after the commencement date of the

construction and development work as agreed upon and prescribed in the contract for fee-based use of state-owned land for construction use, or the decision on allocation of state-owned land for construction use. Any state-owned land for construction use of which the construction and development has been started but the area of land that is under construction and development is less than one third of the total area of land that should have been under construction and development, or the invested amount is less than 25% of the total investment, or the construction and development of which has been suspended for more than one year, may also be regarded as idle land. Except where the delay in the commencement of the construction and development of a plot of state-owned land for construction use is caused by acts of any government or government department, a plot of idle land shall be disposed of in the following ways:

- where the land has remained idle for more than one year, the competent department of land and resources at the municipal or county level shall, with the approval of the people's government at the same level, issue a decision on collecting charges for idle land to the holder of the right to use the land and collect the charges for idle land at the rate of 20% of the land premium or transfer price; the said charges for idle land shall not be included in the production cost by the holder of the land use right; and
- where the land has remained idle for more than two years, the competent department of land and resources at the municipal or county level shall, with the approval of the people's government having the jurisdiction to approve thereof, issue a decision on taking back the right to use the state-owned land for construction use to the holder of the right to use the land and take back the land use right without compensation in accordance with the provisions of Article 37 of the Land Administration Law of the PRC and Article 26 of the Law of the PRC on the Administration of Urban Property; if any mortgage is created on the idle land, a copy thereof shall be sent to each mortgagee thereof.

Planning of Property Projects

Pursuant to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) enacted by the Standing Committee of the National People's Congress on October 28, 2007, and partly amended by the Decision of the Standing Committee of the National People's Congress on Amending Seven Laws (《全國人民代表大會常務委員會關於修改〈中華人民共和國港口法〉等七部法律的決定》) (Presidential Decree [2015] No. 23) issued by the Standing Committee of the National People's Congress on April 24, 2015 which came into force as of January 1, 2008 and the Decision of the Standing Committee of the National People's Congress on Amending Eight Laws (《全國人民代表大會常務委員會關於修改〈中華人民共和國建築法〉等八部法律的決定》) (Presidential Decree [2019] No.29) issued by the Standing Committee of the National People's Congress on April 23, 2019, to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity or individual shall apply to the competent department of urban and rural planning under the people's government of the city or county or the town people's government specified by the people's government of the province, autonomous region or municipality directly under the PRC government for a construction works planning permit.

In addition, to apply for a construction works planning permit, the relevant documentary evidence on land use, the engineering design plan of the project as well as other related documents shall be submitted. If the project requires a site detailed planning, such planning shall also be submitted. If the project satisfies the regulatory detailed planning and the planning requirements, the competent department of urban and rural planning under the people's government of the city or county or the town people's government specified by the people's government of the province, autonomous region or municipality directly under the PRC government shall issue a construction works planning permit. If a construction project begins without obtaining the construction works planning permit or by violating the provisions of the construction works planning permit, the competent department of urban and rural planning of the local people's government at or above the county level shall order it to stop construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine

of not less than 5% of the construction cost but not more than 10% the cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit and confiscate the real objects or the illegal gain, and may also impose a fine not more than 10% of the construction cost.

Construction of Property Projects

Pursuant to the Measures for the Administration of Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) enacted by the MOHURD on October 15, 1999, revised on July 4, 2001, June 25, 2014 and September 28, 2018, and became effective on September 28, 2018, after obtaining the Permit for construction works planning permit, a property developer shall apply for a construction permit from the construction authority under the local people's government above the county level.

Pursuant to the Notice of the General Office of the State Council on Strengthening and Regulating the Administration of Newly Launched Projects (《國務院辦公廳關於加強和規範新開工項目管理的通知》) (Guobanfa [2007] No. 64) promulgated by General Office of the State Council on November 17, 2007, a project may commence construction when the following conditions are met: it conforms to the relevant industrial policies, development and construction planning and market entry standards of the PRC government; the project has completed the formalities of examination and approval, verification or filing; the site selection and layout of the project within the planned area conform to the urban and rural planning, and the relevant planning permit has been transacted in accordance with the relevant provisions of the urban and rural planning law; the approval for land use has been obtained according to law, and the contract on non-gratuitous use of state-owned land has been concluded or the written decision on allotment of state-owned land has been obtained; the environmental impact assessment has been examined and approved in accordance with the provisions on classified administration and graded examination and approval of environmental impact assessment of the construction project; before the commencement of the construction project, the construction unit has obtained the construction permit or commencement report in accordance with the relevant provisions of the construction law, and has taken detailed measures to ensure the quality safety of the construction project, among other things.

Completion of Property Projects

Pursuant to the Development Regulations, the Regulation on the Quality Management of Construction Projects (Decree No. 279 of the State Council) (《建設工程質量管理條例》) enacted and enforced by the State Council on January 30, 2000 and was amended on October 7, 2017 and April 23, 2019, the construction company shall, after it receives the report of construction completion of its project, organize the companies concerned such as for design, construction and engineering supervision to carry out acceptance examination. The construction company shall, within 15 days from the date on which the construction project passes the acceptance examination, submit the report of acceptance examination of the construction project and the recognized or approved documents issued by such departments as for planning, public security fire fighting and environment protection to the competent administrative department for construction or other relevant departments for their record. The competent administrative department for construction or any other relevant department shall, when it discovers that the building unit commits an act of violation of the provisions of the PRC government on the quality control of construction projects in the course of acceptance examination, order the building unit to stop the use and to organize the acceptance examination again.

The Provisional Administrative Measures for Acceptance Examination and Filing Upon Completion of Buildings and Municipal Infrastructure Construction (《房屋建築工程和市政基礎設施工程竣工驗收備案管理暫行辦法》) enacted and enforced by the MOHURD on April 4, 2000, and was revised on October 19, 2009 and the Regulations on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure Construction (《房屋建築和市政基礎設施工程竣工驗收規定》) (Jianzhi [2013] No. 171)) enacted by the MOHURD and became effective from December 2, 2013 provide:

- construction entities shall submit records to the relevant departments in charge of construction of local people's governments above the county level at the locations of the projects (the "Record-filing Organ") within 15 days of the successful passage of the acceptance examination of the projects in accordance with the provisions of these measures;
- project quality supervision institutions shall, within five days from the date of the successful passage of the acceptance examination of the project, submit the project quality supervision report to the Record-filing Organ; and
- where the relevant Record-filing Organ finds that a construction entity acted in violation of PRC government regulations on quality management of construction projects in the process of the acceptance examination, the said organs shall, within 15 days upon the full receipt of the records for the acceptance examination, order relevant projects to be stopped from using and re-organize the acceptance examination.

PROPERTY TRANSACTIONS

Transfer of Property

Pursuant to the Urban Property Law and the Administrative Regulations on Transfer of Urban Property (《城市房地產轉讓管理規定》) enacted by the MOHURD on August 7, 1995 and revised on August 15, 2001, a property owner may sell, give or otherwise legally transfer a property to another person or legal entity. When transferring a property, the ownership of the property and the state-owned land use rights attached to the site on which the property is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the local competent property administration where the property is situated within 90 days of the execution of the transfer contract. Where the state-owned land use rights were originally obtained through the government land grant process, the property may only be transferred on the condition that:

- the land premium for the grant of the state-owned land use rights has been paid in full as provided by the grant contract and the land use rights certificate has been obtained;
- if investment and development is to be carried out according to the land grant contract and the project involves housing construction, development representing more than 25% of the total investment has been completed; where the development involves large-scale plots of land, conditions for using land for industrial or other construction purposes have been satisfied; where the construction of buildings has been completed, the property ownership certificate has been obtained; and
- where the property previously transferred according to these regulations is to be retransferred, if it is needed to go through the formalities of assignment and to pay additional land premium, the land proceeds that have been handed in shall be deducted.

Sales of Commodity Properties

Pursuant to the Regulatory Measures on the Sales of Commodity Housings (《商品房銷售管理辦法》) (Decree No. 88 of MOHURD) enacted by the MOHURD on April 4, 2001 and effective on June 1, 2001, sales of commodity housing may include both pre-completion and post-completion sales.

Pursuant to the Development Regulations and the Administrative Measures Governing the Pre-sale of Commodity Housings in Urban Cities ("Pre-completion Sales Measures") (《城市商品房預售管理辦法》) enacted by the MOHURD on November 15, 1994 and revised on August 15, 2001 and July 20, 2004, respectively, the pre-completion sales of commodity housing shall be subject to a permit system, under which a property developer intending to sell a commodity building before its

completion shall make the necessary pre-completion sales registration with the property development authority of the relevant city or county to obtain a permit of pre-completion sales of commodity housing. A commodity building may only be sold before completion provided that:

- the land premium has been paid in full for the granting of the relevant state-owned land use rights and a land use rights certificate has been issued;
- the construction works planning permit and construction permit have been obtained;
- the funds invested in the development of commodity housing applied to pre-completion sales represent 25% or more of the total investment in the project and the development schedule and the completion and delivery dates have been ascertained; and
- the pre-completion sales have been registered and a pre-sale permit has been obtained.

Pursuant to the Regulations on the Sales of Commodity Housing (《商品房銷售管理辦法》), the post-completion sales of commodity housing may occur when the following preconditions have been satisfied:

- the property developer offering to sell the post-completion properties shall have an enterprise legal person business license and a property developer;
- the developer has obtained a state-owned land use rights certificate or other approval documents of land use;
- the developer has obtained the construction works planning permit and the construction permit;
- the commodity housing have been completed and passed the acceptance examination;
- the relocation of the original residents has been completed;
- the ancillary infrastructure facilities for supplying water, electricity, heating, gas and communication have been made ready for use, and other ancillary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date have been specified;
- the property management plan has been formulated; and
- before the post-completion sales of commodity buildings, a property developer shall submit the property development project manual and other documents showing that the preconditions for post-completion sales have been fulfilled to the property development authority for its record.

Pursuant to the Opinion on Further Stabilizing Property Prices (《關於做好穩定住房價格工作意見的通知》) (Guobanfa [2005] No. 26) promulgated on May 9, 2005 by the General Office of the State Council, sales of commodity housing shall comply with various regulations:

- according to the provisions of the Urban Property Law, the State Council has decided that pre-sale purchasers of commodity properties may not transfer such properties while they are still under development. Before the completion of construction, delivery of an advance sales commodity housing and the receipt of a property ownership certificate by the pre-sale purchaser, the administrative department of property shall not process property transfers. Where the applicant for property ownership fails to be in line with the advance seller as indicated in the pre-sale contract on record, the registration organ of

property title shall not handle the formalities of property title. In addition, a real name system for housing purchases and an immediate archival filing network system for pre-sale contracts of commodity houses should be implemented to prevent any private dealing; and

- the local administrative departments of property should strictly regulate the market assess of those property development enterprises and agencies, seriously investigate into and punish any irregular and rule-breaking sales according to law. Where anyone fabricates contracts, corners housing resources, publicizes false information of price and sales progress, viciously drives up housing prices, misleads consumers to make purchases at a sale, or fails to meet the required construction initiation and completion times, selling prices and dwelling size areas, the local administrative departments of property shall put the aforesaid act on the credit archival filing of property enterprises and publicize it to the general public. For more serious violations, the MOHURD shall, in collaboration with the relevant departments, impose serious punishments according to law in a timely manner and publicize them to the general public.

The Notice of the State Council on Resolutely Curbing the Soaring of Housing Prices in Some Cities (Guofa [2010] No. 10) (《國務院關於堅決遏制部分城市房價過快上漲的通知》) promulgated by State Council on April 17, 2010 provides:

- for implementing more strictly differentiated housing credit policies. For families (including the borrower, the spouse and minor children) for purchases of first housing units for self-use with a construction floor area of 90 sq.m. or more, the down payment on the relevant mortgage loan shall not be less than 30% of the total price; and
- for the strict enforcement of the various means of speculation in housing and speculative purchase of housing units. In areas where the prices of commodity housing have risen too quickly or to an overly high level, or housing is in short supply, commercial banks may suspend the grant of housing loans for the third and further housing units according to the level of risk.

The Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》) (Guobanfa [2011] No. 1) promulgated by the General Office of the State Council on January 26, 2011 provides:

- for reinforcing the differentiated housing credit policy. In respect of households that purchase a second housing unit through a mortgage loan, the down payment ratio shall not be lower than 60%. The loan interest shall not be lower than 1.1 times the benchmark interest rate. The respective branches of the PBOC may raise the down payment ratio and interest rate on loans for a second home based on the price control targets set by the local people's government for newly constructed houses and the policy requirements, and on the basis of national unified credit policies. The banking supervision department shall tighten the supervision and inspection of the differentiated housing credit policy implemented by the commercial banks. Conduct violating the regulations shall be dealt with sternly; and
- for rationalizing the guidance of housing demand. All municipalities directly under the PRC government, cities specifically designated in the state plan, provincial capitals and cities in which the housing prices are excessively high or rising rapidly are to formulate and implement measures for the restriction of housing purchases strictly within a specified period. In principle, households with a local registered residence which already own one residence and households without a local registered residence which are able to produce a local tax payment certificate or a proof of social insurance contribution for a certain number of years shall be restricted to purchasing one residence (including newly constructed commodity housing and second-hand housing). In respect of households with local registered residence which already own two residences, households without

local registered residence which have already owned one set and more housing, and households without local registered residence which are unable to provide a local tax payment certificate or a proof of social insurance contribution for a certain number of years, no houses shall be sold to them within its own administrative area for the time being.

On September 14, 2017, MOHURD issued a notice and officially announce its support for the pilot program on houses with joint property ownership rights in Beijing and Shanghai. On March 16, 2016, Shanghai Municipal People's Government promulgated the "Measures for the Administration on Houses with Joint Property Rights" (上海市共有產權保障住房管理辦法), which was implemented on May 1, 2016. On September 20, 2017, Beijing Municipal Housing and Urban Rural Development Commission, Beijing Municipal Planning and Land Resources Management Committee, Beijing Municipal Development and Reform Commission and Beijing Municipal Bureau of Finance released the "Interim Measures for the Administration of Houses with Joint Property Rights" (共有產權住房管理暫行辦法), which was implemented on September 30, 2017.

According to the aforementioned measures, the houses with joint property ownership rights refers to the housing that the property ownership rights are jointly owned by the government and the purchasers, and the sales price is lower than the market price and the ownership of the housing is restricted. The land for joint property ownership rights will be included in the annual plan of land supply of the local government, listed separately and supplied with priority.

Mortgage of Property

Pursuant to the Urban Property Law:

- when a property is transferred or mortgaged, the ownership of the building and the right to use the land occupied by the building are transferred or mortgaged at the same time;
- the mortgage of property shall mean the non-transfer provision of legal property by the debtor to the mortgagee as guarantee of debt payment. If the debtor fails to make repayments, the mortgagee has priority to be repaid first through the auction of the mortgaged property according to law;
- the title of a housing property plus the right to use the land occupied by the housing property obtained lawfully may be designated as mortgage right. The right to use land obtained through grant may be used as a mortgage;
- a mortgage loan shall be made only upon the presentation of the land use rights certificate and property ownership certificate;
- the mortgagor and mortgagee shall sign a written mortgage loan contract;
- for mortgage loans where the land use right was obtained through transfer, the mortgagee has the priority to be paid first only after a fund equivalent to the lease fees for the right to use the land has been paid upon an auction of the property according to law; and
- after a property mortgage contract is signed, any newly added housing property on the land does not form part of the mortgaged property. If the mortgaged property must be auctioned, the newly added housing property may be auctioned together with the mortgaged property, but the mortgagee does not receive first priority of payment for any amount derived from the auction of the newly added housing property.

The Law of the PRC on Property Rights (《中華人民共和國物權法》) ("Property Law"), which was adopted at the fifth session of the Tenth National People's Congress on March 16, 2007 and came into effect on October 1, 2007, provides:

- where a building is mortgaged, the right to use land for construction occupied by such building shall be mortgaged together. Where the right to use land for construction is mortgaged, all buildings on such land shall be mortgaged together. In case a mortgagor fails to mortgage the properties according to the preceding paragraph, the properties that have not been mortgaged shall be regarded as having been mortgaged together;
- mortgages of buildings under construction shall be registered, and the mortgage right is established as of the date of such registration; and
- after the right to use land for construction is mortgaged, the newly constructed buildings on the land shall not form part of the properties under mortgage. If the aforesaid right to use land for construction must be auctioned, the newly added housing property may be auctioned together with the mortgaged property, but the mortgagee does not receive first priority of payment for any amount derived from the auction of the newly constructed buildings.

Pursuant to the Interim Regulations on Real Estate Registration (《不動產登記暫行條例》) (Decree No. 656 of the State Council of the People's Republic of China) issued by the Ministry of Land and Resources on November 24, 2014, which took effect on March 1, 2015 and was amended on March 24, 2019, land registration refers to the registration of land-use rights of relevant land for public review. With respect to the mortgage of land use right, mortgagee and mortgagor shall apply for mortgage registration of the land use right by presenting the land rights certificate, the master debtor-creditor contract, the mortgage contract and other relevant certificates. If a parcel of land has been mortgaged more than once, the mortgage registration shall be made according to the sequence of applications for mortgage registration. If the conditions for mortgage registration are satisfied, the competent administrative department of land and resources shall record relevant items stipulated in the mortgage contract on the land register and the land use rights certificate and issue the certificate of other rights over land to the mortgagee. If the mortgage under registration application arrives at the maximum limit of mortgage, the entry of the guaranteed maximum amount of creditor's rights and the term of maximum mortgage and other items shall be noted down. The Interim Regulations also stipulate the cessation of illegal registration, and prohibition of legalizing illegal land through land registration, and registrations will not be granted in cases involving unresolved land disputes, as well as cases where the application period exceed the current law stipulated.

The Procedures for Property Registration (《房屋登記辦法》), issued by MOHURD on February 15, 2008 and became effective on July 1, 2008 provide:

- building registration shall adhere to the principle of consistency between the property ownership and the subject holding the land use right within the extent as occupied by the building;
- where a property development enterprise applies for the initial registration of ownership of a building, it shall concurrently apply for registration of buildings legally co-owned by all property owners such as public areas, public facilities and property management service buildings within the building zone, which shall be recorded by the building registration authority in the building register book without the issuance of any certificate of ascription of rights in a building;
- after the forenotice registration is made, without the written consent of the right holder of the forenotice registration, the building registration authority shall not accept an application for registration of a disposition of such a building. Where, after the forenotice registration is made and the creditor's rights are extinguished or within three months from the date when the relevant building registration can be conducted, a party concerned applies for a building registration, the building registration authority shall conduct the relevant registration according to the forenotice registration matters; and

- where, after the advance seller and advance purchaser enters into a contract on the purchase and sale of a marketable building, the advance seller fails to apply for a forenotice registration together with the advance purchaser as agreed on, the advance purchaser may unilaterally apply for the forenotice registration.

Lease of Properties

Pursuant to the Urban Property Law and the Regulations on Leases of Commodity Housings (《商品房屋租賃管理辦法》) enacted by the MOHURD on December 1, 2010 and became effective from February 1, 2011, the parties to a lease of a property shall enter into a lease contract in writing. A registration system is adopted for leases of properties. The parties shall file with the property administration authority under the local government of the city or county in which the building is situated for any newly signed leases, revisions or termination of leases. A party to a residential lease may entrust another person to handle lease registration and filing formalities in writing.

On June 3, 2016, the General Office of the State Council issued the “Opinions on Accelerating the Cultivation and Development of Leasing Market” (國務院辦公廳關於加快培育和發展住房租賃市場的若幹意見), which encourages real estate developers to carry out house leasing businesses. The said opinions support real estate developers to utilize built residential properties or newly built residential properties to carry out leasing businesses. The opinions also encourage real estate developers to put up the residential properties for rent and to cooperate with residential property leasing enterprises to develop rental properties.

On July 18, 2017, MOHURD, NDRC and other government departments jointly released the “Circular on Accelerating the Development of the Housing Leasing Market in Large and Medium-sized Cities with a Large Inflow Population” (關於在人口淨流入的大中城市加快發展住房租賃市場的通知, hereinafter referred to as the Circular). According to the Circular, the government will take multiple measures to speed up the development of the rental market and increase supply of rental housing, including but not limited to, encouraging the local governments to increase land supply for the development of property for rental- and increasing the proportion of rental housing to the commercial residential building projects.

Property Law

The Property Law provides detailed rules regarding the following kinds of major property rights:

- the owner of real or movable property has the right to possess, use, seek profits from and dispose of the real or movable property according to law;
- a usufructuary right holder shall enjoy the right to possess, use and seek proceeds from the real or movable property owned by another party according to law;
- the holder of real property rights for security shall enjoy priority to receive payments from the property for security in case the obligor fails to pay its due debts or the circumstance for the realization of real rights for security as stipulated by the parties concerned occurs, unless otherwise prescribed by law;
- the real property rights of the state, collectives, individuals or any other right holder shall be protected by law and shall not be infringed by any entities or individuals;
- the term of the right to use land for construction for residential purposes shall be automatically renewed upon expiration. The term of the right to use land for construction not for residential purposes shall be renewed according to law. Where there are stipulations about the ownership of houses and other real properties on the aforesaid

land, such stipulations shall prevail; if there is no such stipulation or the stipulations are not explicit, the ownership shall be determined according to the provisions in the laws and administrative regulations; and

- the owner of a building may manage the building and its affiliated facilities themselves or by entrusting a real property service enterprise or any other management personnel. The owners are entitled to change the real property service enterprise or any other management personnel hired by the construction entity according to law.

PROPERTY FINANCING

The Circular on Further Strengthening the Management of Loans for Property Business (《關於進一步加強房地產信貸業務管理的通知》) (Yinfa [2003] No. 121) issued by PBOC on June 5, 2003 specifies the requirements for banks to provide loans for the purposes of property development and individual residential mortgage as follows:

- commercial banks shall issue loans applied for by property enterprises only through property development loans, and shall not issue in the form of property working capital loans or any other forms. Where non-property loans are issued to property enterprises, commercial banks shall observe the principle of “recovering only, and no issuing.” The proprietary capital (owner’s equity) of property enterprises applying for loans shall be no less than 30% of the total development investment. Property loans extended by commercial banks may only be used for local housing projects and may not be used cross-regionally;
- loans to land reserve institutions shall be mortgage loans, the amount of which shall not exceed 70% of the assessed value of purchased lands, and the term of loans shall not exceed two years. Commercial banks shall not issue loans to property enterprises for the purpose of paying for land premiums; and
- commercial banks shall further expand the spectrum of individual housing loans to allow more people to benefit from such loans. To reduce unnecessary interest for borrowers, commercial banks shall issue individual housing loans only to those who purchase housing where main structural development has already been completed. Where borrowers apply for individual housing loans to purchase their first residence for self use, the ratio of down payment shall remain 20%; for second or further residences, the ratio of down payment shall be raised appropriately.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) (Yinjianfa [2004] No. 57) issued by the CBRC on August 30, 2004, a commercial bank shall not grant any form of loans to a project owner that has not obtained the land use rights certificate, the construction land planning permit, the construction works planning permit or the construction commencement permit.

Pursuant to the Notice of the People’s Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Deposit Interest Rate of Excess Reserve (《中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》) enacted by PBOC on March 16, 2005 and became effective from March 17, 2005, down payments for individual mortgage loans increased from 20% to 30% in cities and areas where property prices grow too quickly. The commercial banks can independently determine the extent of increase in property prices according to specific situations in different cities or areas.

The Opinion of the MOHURD and Other Departments on Adjusting the Housing Supply Structure and Stabilizing Property Prices forwarded by the State Council (《關於調整住房供應結構穩定住房價格的意見》) (Guobanfa [2006] No. 37) on May 24, 2006 provides the following:

- loan facilities for property development will be under stricter control. Commercial banks are not allowed to grant loan facilities to property developers who do not have the required 35% or more of the total capital for the construction projects. Commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to property developers who have a large number of idle land and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer; and
- from June 1, 2006 onward, individual purchasers who apply for mortgage loans shall pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers purchase apartments with a floor area of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged.

The Opinion on Standardizing the Admittance and Administration of Foreign Capital in Property Market (《關於規範房地產市場外資准入和管理的意見》) (Jianzhufang [2006] No. 171) enforced by MOFCOM, the MOHURD and the NDRC on July 11, 2006 and partly amended by the Notice on the Adjusting Policies on the Admittance and Administration of Foreign Capital in the Property Market (《關於調整房地產市場外資准入和管理有關政策的通知》) (Jianfang [2015] No. 122) jointly issued by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), MOFCOM, the NDRC, the PBOC, SAIC and SAFE on August 19, 2015 provides:

- an overseas investor that has not obtained an approval certificate of foreign-invested enterprises or a business license shall not engage in any development or operation of property;
- where any foreign-invested enterprise fails to obtain the land use rights certificate or fails to make its project development capital reach 35% of the total project investment amount, it shall not deal with any domestic or overseas loan and the administrative department of foreign exchange shall not approve the settlement of the foreign exchange loan thereof; and
- the Chinese or foreign party in a foreign-invested property enterprise shall not stipulate any term on fixed return or disguised fixed return in any contract, constitution, equity transfer agreement or any other document in any form.

On July 29, 2008, the PBOC and the CBRC jointly issued the Notice on Promoting the Economical and Intensive Land Use by Financial Means (《關於金融促進節約集約用地的通知》). The major provisions of the Notice are as follows:

- Land funded by a loan shall be obtained legally, in compliance with general land use planning, urban and rural planning, and the relevant industry planning. In the case of new land for development, such land must also fall into the annual land use schedule. It is forbidden to extend a loan for a project which does not comply with the relevant planning requirements, or for a project not in compliance with relevant PRC land laws and regulations. It is strictly forbidden to extend loans to any project listed on the National Forbidden Land Use Projects Catalogue (《禁止用地項目目錄》). In the event that a loan has already been extended to such a project, the bank in question must take necessary remedial measures and gradually withdraw the loan. With regard to projects listed on the National Restricted Land Use Projects Catalogue (《限制用地項目目錄》), loans should be extended with due caution.

- Construction projects of economical and intensive land use shall be supported as a priority. Low rent housings, economically affordable housings, capped-price housings, and small to medium-sized ordinary commodity housing with units of GFA below 90 sq.m. shall be supported as a priority by complying with various policies of the PRC and conditions of extending loans by financing institutions.

The Notice on Issues Relating to Standardizing Different Residential Mortgage Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》) (Yinfa [2010] No. 275) jointly issued by PBOC and CBRC on September 29, 2010 provides:

- all commercial banks shall suspend the granting of housing loans to resident families for purchasing third and further residences; commercial banks shall also suspend the granting of housing loans to non-local residents who cannot provide local tax payment proof or proof of social insurance payment for a period of one year or longer;
- for the purchase of commodity housing with loans, the down payment shall be adjusted to more than 30% of the total price; for families who purchase a second residence with a mortgage loan, the down payment shall not be less than 50%, and the loan rate shall not be less than 1.1 times the benchmark rate; and
- all commercial banks shall strengthen the management of consumption loans, and prohibit such loans from being used for purchasing houses. For property development enterprises with land idle, that change the use and nature of land, delay the time of construction initiation or completion, hold back housing units for future sales, or have other records of violations of laws or regulations, all commercial banks shall suspend the granting of loans to them for new development projects and suspend the extension of loans. Any commercial bank which fails to earnestly implement the differential credit policies shall be seriously punished once the issue is ascertained.

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

INSURANCE OF PROPERTY PROJECTS

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》) enacted by the Standing Committee of the National People's Congress on November 1, 1997, which took effect on March 1, 1998 and was amended on April 22, 2011, construction enterprises are required to pay for work injury insurance for workers, and encouraged to maintain and pay for accident and casualty insurance for workers engaged in dangerous operations.

The Guidance of the MOHURD on Strengthening the Insurance of Accidental Injury in Construction Works (《建設部關於加強建築意外傷害保險工作的指導意見》) (Jianzhi [2003] No. 107) issued by the MOHURD on May 23, 2003 further emphasizes the importance of accidental injury insurance in construction works and provides specific guidance.

MAJOR TAXES APPLICABLE TO PROPERTY DEVELOPERS

CIT

According to the “PRC Corporate Income Tax Law” (中華人民共和國企業所得稅法) which was promulgated by the National People’s Congress on March 16, 2007 and became effective on January 1, 2008 and as amended on February 24, 2017 and December 29, 2018:

- A resident enterprise shall pay corporate income tax on its income derived from both inside and outside China;
- for a non-resident enterprise with offices or establishments inside China, it shall pay corporate income tax on its income derived from China as well as on income that it earns outside China which has a real connection with said offices or establishments; for a non-resident enterprise with no office or establishment inside China, or for a non-resident enterprise whose income has no actual connection to its offices or establishment inside China, it shall pay corporate income tax on income derived from China; and
- where any provision in a tax treaty concluded between the government of the PRC and a foreign government is different from the provisions in this law, the provision in the treaty shall prevail.

Pursuant to the Implementation Rules of Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) enacted by the State Council on December 6, 2007 and became effective from January 1, 2008 and was amended on April 23, 2019, income obtained by a non-resident enterprise with no office or establishment inside China, or for a non-resident enterprise whose income has no actual connection to its institution or establishment inside China shall be taxed at the reduced 10% rate. The following income shall be exempted from CIT:

- interest income obtained by a foreign government from loans to the Chinese government;
- interest income obtained by an international financial organization from loans to the Chinese government or the resident enterprises thereof at preferential rates; and
- other income as approved by the State Council.

Pursuant to the Announcement of the State Administration of Taxation on Issues Relating to “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (State Administration of Taxation Announcement [2018] No. 9) issued by the SAT and became effective on April 1, 2018, the term “beneficial owner” in relevant provisions of the agreements on the avoidance of double taxation signed by the PRC government with foreign countries refers to a person who has ownership and control over the income and the rights and property from which the income is derived. To determine the “beneficial owner” status of a resident of the treaty counterparty who needs to enjoy the tax treaty benefits (hereinafter referred to as the “applicant”), a comprehensive analysis shall be carried out in accordance with the factors set out in this Article, taking into account actual conditions of the specific case. Generally speaking, the following factors are not favourable for determination of “beneficial owner” status of the applicant: (1) the applicant is obligated to pay 50% or more of the income, within 12 months from receipt of the income, to a resident of a third country (region); “obligated” shall include agreed obligations and de facto payment even though there is no agreed obligation; (2) the business activities undertaken by the applicant do not constitute substantive business activities. Substantive business activities shall include manufacturing, sales and marketing and management activities of a substantive nature. Determination of whether the business activities undertaken by the applicant are of a substantive nature shall be based on the functions actually performed and the risks borne.

Investment holding management activities of a substantive nature undertaken by the applicant may constitute substantive business activities; where the applicant undertakes investment holding management activities which do not constitute substantive business activities and simultaneously undertakes other business activities, if such other business activities are not significant enough, the applicant's business activities shall not constitute substantive business activities; (3) the treaty counterparty country (region) does not levy tax on the relevant income or exempts tax on the relevant income, or levies tax but the actual tax rate is very low; (4) In addition to the loan contract for which interest is derived and paid, there is/are other loan or deposit contract(s) between the creditor and the third party where the amount, interest rate and date of execution etc are similar; (5) In addition to the transfer contract for use rights such as copyright, patent, technology etc for which the royalties are derived and paid, there is/are other transfer contract(s) for use rights or ownership in relation to copyright, patent, technology etc between the applicant and a third party.

Pursuant to the Confirmation of Completion Conditions for Development of Products by Property Developer (《關於房地產開發企業開發產品完工條件確認問題的通知》) (Guoshuihan [2010] No. 201) promulgated by the SAT on May 12, 2010, a property is deemed completed when its delivery procedures (including move-in procedures) have commenced or when the property is in fact put in use. Property developers should settle and calculate the amount of corporate income tax for the current year in a timely manner.

Business Tax and Value Added Tax

According to the Announcement of the State Administration of Taxation on Issues Concerning the Special Tax Treatment Applicable to Equity Transfer by Non-resident Enterprises (國家稅務總局關於非居民企業股權轉讓適用特殊性稅務處理有關問題的公告) issued by the State Administration of Taxation in December 2013 and the Announcement on the Several Issues Relating to Enterprise Income Tax on Non-resident Enterprises' Indirect Asset Transfer (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) issued by the State Administration of Taxation in February 2015, if a non-resident enterprise transfers its shares in a foreign enterprise which holds shares in a PRC resident enterprise, this transfer may be subject to CIT at the rate of 10%, provided, if such non-resident enterprise is deemed by the relevant PRC authorities to have indirectly transferred its shares in the PRC resident enterprises through an arrangement without reasonable commercial purposes that results in the abuse of organizational structure.

According to the Circular on Printing and Issuing the Pilot Program for Transition from Business Tax to Value Added Tax jointly issued by the MOF and State Administration of Taxation on November 16, 2011, the MOF and the State Administration of Taxation introduced two new band rates of 11% (transportation and construction industries) and 6% (part of modern service industries) on the basis of the standard value-added tax rate of 17% and the lesser value-added tax rate of 13% first commenced in Shanghai on January 1, 2012. Furthermore, nine cities and provinces have also officially applied to participate, specifically Tianjin, Chongqing, Jiangsu, Anhui, Fujian, Xiamen, Shenzhen, Hunan and Hainan in accordance with the Circular on Implementing the Pilot Policy of Transition on business tax to value-added tax in eight cities and provinces including Beijing jointly issued by the MOF and State Administration of Taxation. The policy was implemented on November 1, 2012 according to the Circular for Taxpayers Handling the Taxes Issues in Shenzhen as a Pilot City on Transition from business tax to value-added tax issued by Shenzhen Municipal Office of the State Administration of Taxation and Administration of Local Taxation of Shenzhen Municipality on August 31, 2012. The transportation and part of the modern service industries are included in the scope of business tax to value-added tax. The advertisement and storage and other logistics services provided by our Company are subject to the policy of the transition from business tax to value-added tax.

On March 23, 2016, the MOF and the State Administration of Taxation jointly issued the "Notice on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax" (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), under which the business tax was totally replaced by value-added tax in an All-round Manner. In particular, the provision of services in transportation, construction or real property lease, the sale of real property

are subject to the rate of 11%; the provision of advisement and other modern services are subject to the rate of 6% and 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 a common taxpayer among real estate developers shall be subject to a simple tax rate of 5%.

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, “self-development” means infrastructure facilities and buildings erected on the land with land use rights which are developed by a real estate development company (“taxpayer”). These measures are also applicable to a development completed by a taxpayer after such project is taken over.

Value added tax (“VAT”) is payable by taxpayers in the calendar month immediately following receipt of presale proceeds of real estate self-development in accordance with a given formula. The applicable rate is 11%. Nevertheless, for taxpayers conducting old real estate projects and who have chosen to apply the simplified tax method, the simplified rate of 5% will be applied in calculating the prepaid VAT. Once the simplified tax method is chosen, it will be applicable for 36 months.

Old real estate projects refer to (1) real estate projects with commencement dates of construction stated in the Construction Permits prior to April 30, 2016, and (2) construction projects with no commencement dates stated in the Construction Permits, or construction projects with commencement dates of construction stated in the construction contracts prior to April 30, 2016, but have not yet received Construction Permits.

On November 19, 2017, the Interim Regulations of the People’s Republic of China on Business Tax was abolished and the Interim Regulations of the People’s Republic of China on Value added Tax (中華人民共和國增值稅暫行條例) was revised by the State Council. According to the revised Interim Regulations of the People’s Republic of China on Value added Tax, selling goods, providing labor services of processing, repairs or maintenance, or selling services, intangible assets or real property in the PRC, or importing goods to the PRC, shall be subject to value added tax.

On April 4, 2018, the MOF and SAT jointly issued the Circular on the Adjustment of Value Added Tax Rate (關於調整增值稅稅率的通知), according to which, the tax rates of 17% and 11% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16% and 10% respectively. On March 20, 2019, the MOF, SAT and GAC jointly issued the Notice on Policies concerning Further Reforming Value Added Tax (關於深化增值稅改革有關政策的公告), according to which, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13% and the tax rate of 10% applicable thereto shall be adjusted to 9%.

LAT

According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) (Decree No. 138 of the State Council), which was enacted on December 13, 1993 and amended on January 8, 2011:

- any taxpayer who gains income from the transfer of property shall be subject to land appreciation tax;
- land appreciation tax shall be subject to a regime of four progressive rates: 30% on the amount of appreciation not exceeding 50% of the sum of deductible items; 40% on the amount of appreciation exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on the amount of appreciation exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on the amount of appreciation exceeding 200% of the sum of deductible items;

- a taxpayer is exempt from land appreciation tax if: (i) the taxpayer builds houses of ordinary standard for sales and the amount of appreciation does not exceed 20% of the sum of deductible items; (ii) land and properties recalled and requisitioned for construction purposes by the PRC government according to law; and
- deductions to be made in the calculation of land appreciation comprise: (i) the lease price paid for the use of the land; (ii) the cost and expenses spent in the development of the land; (iii) the cost and expenses in the construction of new buildings and attached installations, or the appraisal prices of old buildings and structures; (iv) tax payments arising from the transfer property; (v) other deductions as prescribed by the Ministry of Finance (“MOF”).

The Notice in respect of the Administration of the Collection of Land Appreciation Tax (《關於認真做好土地增值稅徵收管理工作的通知》) (Guoshuihan [2002] No. 615) issued by SAT also on July 10, 2002 requests that local tax authorities modify the management system for land appreciation tax collection and related operation procedures, to build up a proper tax return system for land appreciation tax and to improve the methods of pre-levying tax for pre-sold properties. The Notice also indicated that the preferential policy of land appreciation tax exemption has expired and that such tax shall be levied again for first time transfer of properties under property development contracts signed before January 1, 1994 or project proposals that have been approved and capital was injected for development.

The Notice of the SAT in respect of Further Strengthening the Administration of the Collection of Land Use Tax and Land Appreciation Tax in Cities and Towns (《國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》) (Guoshuifa [2004] No. 100) on August 5, 2004 indicated that the collection of land appreciation tax should be further strengthened. Deductions and exemptions of the land appreciation tax which were not approved by competent authorities, shall be corrected immediately and shall be levied again. Except for the construction of economically affordable houses, land appreciation tax for other kinds of land for property development shall not be reduced or eliminated. The Notice of Certain Issues Regarding Land Appreciation Tax (《關於土地增值稅若干問題的通知》) (Caishui [2006] No. 21) issued by ministry of finance and SAT on March 2, 2006 and became partly invalid on February 2, 2015, and clarifies the relevant issues regarding land appreciation tax as follows:

- the Notice sets out the defined standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties as well as other commodity properties, the value of land appreciation shall be assessed separately. In respect of ordinary standard residential properties for which application for tax exemption has been filed with the tax authority at the locality of the property before the Notice is issued and for which land appreciation tax exemption has been granted by the tax authority on the basis of the criteria of ordinary residential properties originally set by the people’s government of the province, autonomous region or municipality, no adjustment shall be made retroactively;
- all regions shall further improve the measures for the advance collection of land appreciation tax, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the property industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties and commercial properties. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up;
- if any tax pre-payment is not paid within the advance collection period, overdue fines shall be imposed additionally as of the day following the expiration of the prescribed advance collection period, according to the relevant provisions of the Law of Tax Collection and Administration (《稅收徵收管理法》) and its implementation rules; and

- as to any property project that has been completed and passed the inspection upon completion, where the floor area of the property as transferred makes up 85% or more in the saleable floor area, the tax authority may require the relevant taxpayer to settle the land appreciation tax on the transferred property according to the matching principles regarding the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region, municipality, or a city under separate state planning.

The Notice on the Administration of the Settlement of Land Appreciation Tax of Property Developer (《國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知》) (Guoshuifa [2006] No. 187) issued by the SAT on December 28, 2006, which came into effect on February 1, 2007, provides:

- the settlement of land appreciation tax shall be made for each property development project approved by the relevant departments of the state; as for a project developed by stages, the settlement shall be made for each stage of the project. Where a development project includes both ordinary housing and non-ordinary housing, the appreciation shall be calculated separately;
- where it is under any of the following circumstances, the taxpayer shall settle its land appreciation tax when: (i) a property project is completed and sold out; (ii) when an unfinished real estate development project without the final accounting of revenue and expenditure is transferred as a whole to a third party or (iii) the land use right is directly transferred;
- the competent tax authority may ask the taxpayer to settle its land appreciation tax where: (i) for projects that have completed construction and acceptance examination, the building area already transferred makes up 85% or more of the salable building area of the whole project, or where this proportion is below 85%, the residuary salable building area has been leased or is in self-use; (ii) the sales are not completed upon the expiration of three years since the day when the sales (or pre-sale) permit is obtained; (iii) the taxpayer has applied for writing-off tax registration but has not gone through the formalities for the settlement of land appreciation tax yet; or (iv) other circumstances as prescribed by the provincial tax authorities;
- where a property enterprise uses its property development for the welfare of its workers, rewarding, foreign investment, distributions to the shareholders or investors, repaying its debts, or in exchange for the non-monetary assets of any other entity or individual, among other things, if the ownership is transferred, it shall be deemed as a sale of property, and revenue therefrom shall be determined in accordance with the following: (i) revenue shall be determined in accordance with the average price of the same kind of property sold by the company in the same region and in the same year; (ii) revenue shall be determined by the competent tax authority by referring to the market price or appraised value of the same kind of property sold in the same region and in the same year;
- where a property enterprise uses developed portions of its property development for self-use, lease or any other commercial purpose, if the relevant property ownership rights are not transferred, the land appreciation tax thereon shall be exempted, the revenue therefrom shall not be listed in the settlement of tax payment, and the corresponding costs and expenses shall not be deducted; and
- the tax authority may, by consulting the tax burdens of the local enterprises similar to it in terms of development scale and income level, collect land appreciation tax from the property developer by verification on the basis of the levying rate that is not lower than the advance levying rate, where: (i) the property developer fails to set up accounting books in accordance with the provisions of laws and administrative regulations; (ii) the property

developer destroys the accounting books without authorization or refuses to provide the data of payments; (iii) the property developer has established accounting books, but the accounting items are confusing, or its cost information, revenue vouchers and expense vouchers are damaged or incomplete and it is difficult to determine the transfer income or amount under the deductible items; (iv) the property developer satisfies the settlement conditions of land appreciation tax, but it fails to go through the settlement formalities within the prescribed time limit, and it is ordered by the tax authority to conduct settlement within a certain time limit but still fails to do so upon the expiration of the time limit; (v) the taxable basis declared is obviously on the low side and without legitimate reason.

Deed Tax

Pursuant to the Provisional Regulations of the PRC on Deed Tax (《中華人民共和國契稅暫行條例》) (Decree No. 224 of the State Council) enacted by the State Council on July 7, 1997 and became effective on October 1, 1997 and was amended on March 2, 2019:

- the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax; and
- the rate of deed tax is 3% to 5%. The people's government of provinces, autonomous regions and municipalities may, within the foresaid range, determine and report their effective tax rates to the MOF and the SAT for record.

The Adjustments to Taxation on Property Transactions (《財政部國家稅務總局關於調整房地產交易環節稅收政策的通知》) (Caishui [2008] No. 137) ("Circular 137") issued by MOF and SAT on October 22, 2008, and was amended by the Notice on Adjusting Preferential Policies on Deed and Individual Income Tax in Property Transactions (關於調整房地產交易環節契稅個人所得稅優惠政策的通知) on October 1, 2010, the stamp duty on residential properties sold or purchased by individuals, and the land appreciation tax on residential properties sold by individuals are temporarily suspended. Pursuant to Circular 137 and its amendments, the deed tax rate policy shall be levied at half the applicable rate on an individual who purchased an ordinary residential property that is the only housing owned by the family (members include the purchaser, his/her spouse and their minor child).

Urban Land Use Tax

Pursuant to the Provisional Regulations of the PRC Governing Land Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》) enacted by the State Council on September 27, 1988, which came into effect on November 1, 1988, revised on December 31, 2006, January 8, 2011, December 7, 2013 and March 2, 2019, the entities and individuals using land within the scope of cities, counties, towns and industrial and mining zones shall be the taxpayers of the land use tax, and the land use tax shall be based on the areas of land actually occupied by the taxpayers for tax calculation, and shall be calculated and collected according to the amounts of tax to be paid as stipulated. The annual amounts of land use tax per square meter are as follows:

- (1) RMB1.5 to RMB30 for large cities;
- (2) RMB1.2 to RMB24 for medium sized cities;
- (3) RMB0.9 to RMB18 for small cities; and
- (4) RMB0.6 to RMB12 for cities under the county level, towns, and industrial and mining zones.

Property Tax

Pursuant to the Provisional Regulations of the PRC on Property Tax (《中華人民共和國房產稅暫行條例》) (Guofa [1986] No. 90) enacted by the State Council on September 15, 1986 and became effective from October 1, 1986 and was amended on January 8, 2011, property tax shall be 1.2% if it is calculated on the basis of the residual value of a property, and 12% if it is calculated on the basis of the rental.

Stamp Duty

Pursuant to the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》) (Decree No. 11 of the State Council) enacted by the State Council on August 6, 1988 and effective from October 1, 1988, and revised on January 8, 2011, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

Urban Maintenance and Construction Tax

Pursuant to the Provisional Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on February 8, 1985, and revised on January 8, 2011, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay urban maintenance and construction tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

Pursuant to the Notice of Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (Guofa [2010] No. 35) promulgated by the State Council on October 18, 2010, regulations, rules and policies regarding urban maintenance and construction tax shall be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals from December 1, 2010. Regulations, rules and policies in respect of urban maintenance and construction tax and education surcharge issued by the State Council as well as finance and tax department of State Council since 1985 and 1986 shall also be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals.

Education Surcharge

Pursuant to the Provisional Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) (Decree No. 588 of the State Council) enacted by the State Council on April 28, 1986 and revised on June 7, 1990, August 20, 2005 and January 8, 2011, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as stipulated under the Notice of the State Council on Raising Funds for Schools in Rural Areas (《關於籌措農村學校辦學經費的通知》).

Pursuant to the Notice of Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (Guofa [2010] No. 35) promulgated by the State Council on October 18, 2010, regulations, rules and policies regarding education surcharge shall be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals from December 1, 2010.

MEASURES ON STABILIZING HOUSING PRICES

The General Office of the State Council enacted the Notice on Effectively Stabilizing Property Prices (《關於切實穩定住房價格的通知》) (Guobanfamingdian [2005] No. 8) on March 26, 2005, requiring measures to be taken to restrain surging property prices and to promote the healthy development of the property market. On May 9, 2005, the General Office of the State Council forwarded the Notice of Opinion on Stabilizing Property Prices (《關於做好穩定住房價格工作意見的通知》) (Guobanfa [2005] No. 26) issued by departments including the MOHURD, which provides that:

- Intensifying the planning and control and improving the supply structure of houses:

All regions shall, according to the property market demand thereof, clarify the construction scale, project allocation and progress arrangement of common commodity houses and economically affordable houses of the current year and the next year as soon as possible. Where the house price is in excessive growth, the supply of common commodity houses and economically affordable houses at mediate or low prices are insufficient, emphasis shall be put on the common commodity houses and economically affordable houses at moderate or low prices in the house construction, and the areas of construction initiation and completion and the proportion of common commodity houses and economically affordable houses at moderate or low prices in the overall construction shall be clarified and be publicized to the general public as soon as possible and shall be subject to the social supervision so as to stabilize the social prediction. The people's governments at the provincial level shall reinforce the supervision and examination on the implementation of all municipals (regions) and counties.

All the administrative departments of city planning shall, on the precondition of being in compliance with the overall city planning, accelerate the progress of work, give priority to the examination of projects in the planning and grant the guaranty for location choice according to the demand for the construction of common commodity houses and economically affordable houses at moderate or low prices. At the same time, the said administrative departments shall strictly control the construction of low-density or top-grade houses. For those construction projects of common commodity houses at moderate or low prices, before any supply of land, the administrative department of city planning shall provide such requirements of planning and designing as height of buildings, volumetric fraction and green land according to the controlling detailed plan. The administrative department of property shall, in collaboration of the relevant departments, put forward such controlling requirements as the sales prices of houses and the areas of dwelling sizes, which shall be the precondition of any land transfer, so as to ensure an effective supply of small or medium-sized houses at moderate and low prices. All regions shall intensify the supervision and administration on the planning licensing for property development projects, carry out a second planning examination on those house projects that haven't been initiated for 2 years and resolutely cancel those projects that fail to meet the requirements of planning licensing;

- Intensifying the control over the supply of land and rigorously enforcing the administration of land:

All regions shall, on the precondition of a strict implementation of the overall layout and plan of land use, adjust the structure, mode and time of land supply in proper time according to any change of the property market. For those regions where the price of any land as used for residential house and the house price is in excessive growth, we should properly elevate the proportion of the land as used for residential houses in land supply, attach importance to increasing the land supply for the construction of common commodity houses and economically available houses. We should continuously cease the land supply for villas and strictly control the land supply for top-grade houses. We should further improve the land purchase and reserve system, actively introduce the market mechanism, straighten out land development, lower the costs of land development and enhance the supplying capability of land for common commodity houses;

- Adjusting the policies of business tax in the link of house transfer and strictly regulating the collection and administration of tax:

From June 1, 2005, where anyone resells his house that has been owned for less than 2 years, the business tax shall be collected on the basis of the full amount of income from the sale of his house; where anyone resells his common house that has been owned for more than 2 years (including 2 years), the business tax thereof may be exempted; where anyone resells his non-common house that has been owned for more than 2 years (including 2 years), the business tax shall be collected on the basis of the margin between the income from house sale and the payment for house purchase; All the regions shall strictly define the application scope of the current tax preferential policies concerning house and reinforce the administration of tax collection;

- Clarifying the standard of enjoying favorable policies for common houses and guiding the construction and consumption of houses in reasonable manner:

In order to guide the construction and consumption of houses, the development of land-saving houses shall be fostered and the support of favorable policies to those common houses of medium or small sizes at moderate and low prices shall be granted. Those houses that enjoy the favorable policies shall, at the same time, satisfy the following conditions in principle: the volumetric fraction of the buildings in residential communities shall be more than 1.0, the floor space of a single set of apartment shall be less than 120 square meters, and the bargaining price is 1.2 times lower than the average dealing price of those houses as built on the land at an identical level. All provinces, autonomous regions and municipalities directly under the PRC government shall, according to the actual situations, formulate the specific standards for those common houses that may enjoy favorable policies within the administrative regions thereof. A proper float is allowed for the standard of floor space and price of a single set of apartment. However, the upward floating proportion shall not be more than 20% of the aforesaid standard. The specific standards of all municipalities directly under the PRC government and the capital cities of all provinces shall be reported to the MOHURD, the MOF and the SAT for archival filing and shall be promulgated before May 31, 2005;

- Intensifying the construction of economically affordable houses and improving the cheap house-renting system:

Opinion on Adjusting the Structure of Property Supply and Stabilizing Property Prices forwarded by the State Council on May 24, 2006 (《關於調整住房供應結構穩定住房價格的意見》) (Guobanfa [2006] No. 37) of the MOHURD and other relevant government authorities provides the following:

- Adjusting the structure of property supply:

Developers must focus on providing small to medium-sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents. As of June 1, 2006, newly approved and commenced building construction projects must have at least 70% of the total construction works area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable units). If municipalities directly under the PRC government, cities listed on state plans and provincial capital cities intend to adjust such prescribed ratio based on special condition, they must obtain special approval from the MOHURD. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio;

- Further adjustments on tax, loan and land policies:

(i) from June 1, 2006, business tax will be levied on the full amount of the sales proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, business tax will normally be exempted. If an

individual sells his non-ordinary apartment after five or more years from the date of purchase, business tax will be levied on the balance between the selling price and the purchase price; Commercial banks are not allowed to approve loan facilities to property developers who do not fulfill the capital fund requirement of 35% or more for their construction projects;

- (ii) commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the property developers who have a large reserve of idle lands and unsold commodity apartments. Banks shall not accept mortgages of commodity properties remaining unsold for three years or more;
- (iii) at least 70% of the total land supply for residential property development must be used for developing small to medium-sized ordinary housing (including economical housing) and low-cost housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the property developer. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly restricted; and
- (iv) the relevant authorities will levy a higher surcharge against those property developers who have not commenced the construction works for more than one year from the commencement date stipulated in the State-owned land use right contract and will order them to set the schedule for commencing the construction works and completion. The relevant authorities will confiscate without compensation the State-owned land use right from those property developers who have not commenced the construction works beyond two years from the commencement date stipulated in the State-owned land use right contract without proper reasons. The relevant authorities will dispose of the idle land of those property developers who have suspended the construction works consecutively for one year without an approval, have invested less than one-fourth of the total proposed investment or have developed less than one-third of the total proposed construction area.

A supplemental Opinion on the Implementation of the Residential Property Size Ratio in Newly Built Residential Buildings (Jianzhufang [2006] No. 165) (《關於落實新建住房結構比例要求的若干意見》) promulgated by the MOHURD on July 6, 2006, provides that, as of June 1, 2006, for newly approved and newly commenced commodity residential projects in different cities including town and counties (from June 1, 2006 and onward), at least 70% of the total construction area must be used for building small apartments (including economically affordable units) with unit floor area of 90 sq.m. or below.

The Implementation of the Several Opinions of the State Council on Solving Housing Difficulties of Low-Income Household in Urban Cities and Further Strengthening Control on 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》) (Guotuzifa [2007] No. 236) issued by the Ministry of Land and Resources on September 30, 2007 and amended on December 3, 2010, provides:

- to tighten the measures on the disposal of idle land, the land resources administrative bureau at the city or county level shall give priority to the construction land of low-renting housing, economically affordable housing and low-to-medium size ordinary commodity housing at low-to-medium prices when drafting the annual land supply plan and the annual supply of such houses shall not be less than 70% of the total amount of annual land supply; and
- the local authorities shall control the land supply and shorten development period, under which development period of a parcel of land shall not be more than three years in principle, in order to ensure the efficiency of land development.

Circular on Conservation of Intensive-used Land by Financial Policies (《關於金融促進節約集約用地的通知》) (Yinfa [2008] No. 214) jointly issued by PBOC and CBRC on July 29, 2008 required financial institutions to tighten the credit financing granted to construction projects, municipal infrastructure and industrial land projects, rural collective construction land projects and commercial property projects. Commercial banks shall not grant loans to property developer for the purpose of paying land premium nor to finance any of the following property projects:

- construction projects which belong to the prohibited category;
- property development project on a rural collective construction land; and
- property development project on land which has been idle for two years or more.

Pursuant to Circular on Promoting the Stable and Healthy Development of the Property Market (《關於促進房地產市場平穩健康發展的通知》) (Guobanfa [2010] No. 4) issued by the State Council on January 7, 2010, to further strengthen and to improve the regulation on property market. In order to manage market expectation and to promote the steady and healthy development of property market, the supply of affordable housing and general commodity apartments will be increased to meet the demand of users and to deter speculating buyers. The increase in housing supply can also facilitate risk management and market regulation. In addition, the minimum down payment of mortgage loan for additional residential property shall be 40% of the value of the property to be purchased by any member of a family (including the borrower, his or her spouse and dependent children) which has already purchased a residential property by mortgage loan. The interest rate of the mortgage loan for additional residential property shall reflect the associated risk level.

The Notice on Resolutely Curbing the Soaring of Property Price in Certain Cities (《關於堅決遏制部分城市房價過快上漲的通知》) (Guofa [2010] No. 10) issued by the State Council issued on April 17, 2010 provides a series of new measures to suppress the surge of property price in certain cities of China, which included (among others) the following:

- Increasing the minimum requirement of down payment:
 - (i) for the purchase of a first residential property with a GFA of 90 sq.m. or above, the down payment shall not be less than 30% of the purchase price of the relevant property;
 - (ii) for the purchase of a second residential property, the down payment shall not be less than 50% of the relevant purchase price, and the interest rate of mortgage loan shall not be lower than 1.1 times of the benchmark interest rate for loan of one-year period of PBOC; and
 - (iii) for those who purchase a third or subsequent property by mortgage loan, commercial banks shall significantly increase the ratio of down payment to the total payment and the minimum mortgage interest rate.

- Control of bank loan:

In areas where property prices grow too fast, commercial banks may suspend granting mortgage loans to purchaser who is buying the third or subsequent property; Commercial banks shall suspend granting loans to those non-local buyers who fail to provide the proofing documents of local tax payment or social insurance premium payment for more than one year; Local government may take provisional measures to limit the maximum numbers of properties a household may own; Developers which engage in speculation shall be punished; Commercial banks shall not grant loans to developers which possess idle lands or manipulate the land reserve or price; and China Securities Regulatory Commission (“CSRC”) may suspend the review of application for the listing of shares, re-organization and re-financing of developers which engage in speculations.

- Disclosure of property title ownership:

Property developers who have submitted information of the completed property for sales to the local government or have obtained the permit for pre-sales shall make an announcement regarding the property project available for sales to the public in a timely manner, and shall sell the property at the same price as that filed with the local government.

Pursuant to the Notice on Adjusting the Taxation Preferential Treatment on Deed Tax and Personal Income Tax Applicable to Property Transaction (《關於調整房地產交易環節契稅個人所得稅優惠政策的通知》) (Caishui [2010] No. 94) jointly issued by the MOF, SAT and MOHURD on September 29, 2010 and became effective on October 1, 2010. According to the Notice, households (including the purchaser, his or her spouse and children under the age of 18) are entitled to a 50% reduction of deed tax for the purchase of the first residential property. If the GFA of the residential property is less than 90 sq.m., the applicable deed tax will be decreased to 1%. No exemption will be granted to any purchaser who purchases another residential property within one year after the disposal of the original property.

Pursuant to the Notice on Issues Relating to Further Regulating the Control of Property Market (《關於進一步做好房地產市場調控工作有關問題的通知》) (Guo banfa [2011] No. 1) issued by the General Office of the State Council on January 26, 2011 provides:

- greater effort is required for the construction of affordable housing. It is required that 10 million units of affordable housing units and redeveloped units in squatter areas shall be developed in 2011. Local governments shall ensure that not less than 70% of its land supply shall be restricted for the development of affordable housing units, redevelopment of squatter areas and small and medium-sized commodity housing units. The quality of new property developers and their sources of funds shall be stringently scrutinized;
- entities and individuals participating in bidding for lands are required to disclose and prove the sources of their funding. Change of use of land for affordable housing is prohibited and violation of this restriction will be severely punished. The land use right of land allocated for property development but remain undeveloped for more than two years shall be forfeited. If a land remains undeveloped for more than one year, penalty for idling will be imposed. Local governments are required to identify any illegal transfer of land use right and take necessary actions accordingly. No allocation of land shall be made and no property development project shall be approved if the investment of a property development project (exclusive of land premium) is less than 25% of the value of the project; and
- if any individual sells his or her residential property within five years from the date of purchase, a unified business tax will be levied on the proceeds from such sale. For those who purchase a second residential property by credit loans, the down payment shall not be less than 60% of the total purchase price, while the interest rate of such loan shall not be lower than 1.1 times of the benchmark interest rate. In any city, local families who already own a residential property, or non-local families who can provide the proofing documents of the payment of local tax or social insurance for certain years may only purchase one residential property (including new commodity apartments and second-hand properties). Local families who already own two or more properties or non-local families who fail to provide the proofing documents of the payment of local tax or social insurance for specified periods may not purchase any property in that city.

The Regulation on Clear Pricing of Commercial Property (《商品房銷售明碼標價規定》) (Fagaijiage [2011] No. 548) promulgated by NDRC on March 16, 2011, which took effect on May 1, 2011, provides:

- property developers and intermediary service agencies within the territory of the PRC (“business operators of commodity housing”) shall sell newly built commodity housing at expressly marked prices in accordance with these Provisions. Intermediary service agencies shall sell second-hand housing at expressly marked prices with reference to these provisions;
- competent price departments of governments at all levels shall be the organs for administration of sales of commodity housing at expressly marked prices, and shall conduct supervision and inspection, in accordance with the law, over the compliance by business operators of commodity housing with the requirements for clear indication of prices and public notice of the charges;
- property business operators with the pre-sale license and those selling completed housing shall expressly indicate the prices of the housing when disclosing the housing resources;
- a business operator of commodity housing shall place price tags, price lists or price brochures in eye-catching places of property transaction venues, and may, where conditions permit, adopt other means such as electronic information screens, multimedia terminals or computer inquiry at the same time. Prices expressly marked through multiple means mentioned above shall be consistent with one another;
- when marking the price of a commodity housing, the seller shall make sure that all chargeable items are disclosed, that the price is true, definite and marked in a legible and eye-catching manner, and that the number of the complaint hotline of the competent pricing department is given; and
- in the sales of commodity housing, one unit shall be given one expressly marked price, and business operators of commodity housing shall clearly mark the price of each housing unit. Where a unit is priced according to its floor area or built-in floor area, the price per floor area or the price per built-in floor area shall also be given.

The Notice on Continuing Adjustment and Control of Property Markets (《關於繼續做好房地產市場調控工作的通知》) (Guo Ban Fa [2013] No. 17, hereinafter referred to as the “No. 17 Notice”) promulgated and implemented by the General Office of the State Council on February 26, 2013 provides:

- Continuing to enforce purchase restrictions imposed on commodity housing

All administrative regions of a city subject to purchase restrictions shall be covered under such restrictions. Types of houses subject to purchase restrictions shall include all newly-constructed commodity housing and second-hand housing. The house purchase eligibility shall be examined before the conclusion of a house purchase contract (or a letter of purchase intent).

For the time being, houses within the administrative regions of a city shall not be sold to a family without local household register that already owns one or more houses, and a family without local household register that is unable to provide proofs for a certain number of consecutive years of local tax payment or social insurance contribution. For cities with soaring housing prices, the local branches of the PBOC may further raise the percentage of the minimum down payment and loan interest rates for second-home purchases according to policy requirements and the price control targets determined by local people’s governments for newly-constructed commodity housing. Tax authorities shall closely cooperate with departments of housing and urban-rural development to levy individual income tax payable on the sales of owner-occupied houses at 20% of the transfer income in strict accordance with the law if the original value of the houses sold can be verified through historical information such as tax collection and house registration.

- Increasing supply of ordinary commodity housing and land for property construction

In principle, total supply of land for housing construction in 2013 shall not be less than the average actual supply over the past five years. Where more than 70% of the total units developed and built under an ordinary commodity housing construction project are small- and medium-sized units, banking financial institutions shall give priority to supporting its credit needs for project development as long as credit extension conditions are satisfied.

- Strengthening expectation management of property market

Starting from 2013, all regions shall raise the pre-sale threshold for commodity housing. All regions shall earnestly strengthen the management of the funds obtained from pre-sales, and improve regulatory systems in this regard. Regions that have not yet implemented regulation of the funds obtained from pre-sales shall accelerate the pace for formulating their respective regulatory measures for funds obtained from commodity housing pre-sales. The issuance of pre-sale permits may be temporarily suspended for commodity housing projects that command excessively high prices in their pre-sales programs and that refuse to be directed by the departments of housing and urban-rural development of the relevant cities, or commodity housing projects for which the funds obtained from pre-sales are not regulated.

- Strengthening the credit management of property developers

Relevant departments shall establish a joint action mechanism to mete out heavier punishments against property developers that possess idle land, engage in land speculation, hoard properties, drive up prices or commit other illegalities or irregularities. Departments of land and resources shall prohibit such property developers from bidding for new land plots, banking financial institutions shall not grant loans for their new development projects, securities regulatory authorities shall suspend the approval of their applications for listing, refinancing or major asset restructuring, and banking regulatory authorities shall prohibit them from raising funds through trust schemes. Tax authorities shall reinforce the collection and administration of the land appreciation tax, and conduct collection audit and inspection in strict accordance with relevant provisions.

The Notice about Forwarding Notice of the General Office of the State Council on Continuing Adjustment and Control of Property Markets issued and implemented by the General Office of the People's Government of Guangdong Province (《廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控工作的通知》) (Yue Fu Ban [2013] No. 11) on March 25, 2013 sets forth specific measures for carrying out and implementing the No. 17 Notice, including the following:

- Effectively implementing the accountability system for stabilizing housing prices

Guangzhou and Shenzhen municipalities shall, in accordance with the principle of maintaining basic stability of housing prices, determine the annual price control targets for newly-constructed commodity housing in 2013, register such targets with the relevant government departments and announce such targets to the public before the end of March 2013.

- Firmly enforcing purchase restrictions imposed on commodity housing

Individual income tax payable on the sales of owner-occupied houses at 20% of the transfer income shall be strictly levied.

Guangdong, Shenzhen, Zhuhai and Foshan municipalities shall continue to strictly enforce purchase restrictions policies for residential housing, and the existing restrictions policies which are not inconsistent with the No.17 Notice shall be adjusted immediately.

- Increasing supply of small and medium-sized ordinary commodity housing and land for property construction

Relevant departments of cities above prefectural level shall announce to the public their annual housing supply plans for 2013, and register the plans with the provincial department of land resources.

A fast-track administrative examination and approval channel for construction projects of small and medium-sized ordinary commodity housing with units which are below 90 sq.m. shall be established. Land supply, construction and delivery for sales of the projects of small and medium-sized ordinary commodity housing shall be accelerated.

- Strengthening the supervision and management of the property market

Provisions regarding management of pre-sales of commodity housing indicated in Administrative Regulations of Guangdong Province on Pre-sales of Commodity Housing (《廣東省商品房預售管理條例》) shall be strictly implemented. Regions where necessary conditions are satisfied shall raise the pre-sale threshold for commodity housing.

On September 29, 2014, the PBOC and CBRC jointly issued the Notice of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Housing Financial Services (中國人民銀行、中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知) which specified that for a family who buys its first ordinary residential property for self-use with a loan, the minimum percentage of down payment is 30%, and the lower limit of loan interest rate is 70% of the benchmark rate, to be decided by banking financial institutions in light of risk conditions; for a family who has paid up the loan of its first residential property and applies for a loan again to buy an ordinary residential property as an upgrade to living conditions, the loan policies for first residential property shall apply. The notice also specified that in cities where the measures of "restrictions on house buying" are lifted or not imposed, for a family who owns two or more residential properties and has paid up loans for them, and applies to buy another residential property with a loan, banking financial institutions shall decide on the percentage of down payment and interest rate by prudently considering the borrower's solvency and credit status. The banking financial institutions may, according to local plans on urbanization, grant housing loans to non-local residents who meet policy requirements.

On March 30, 2015, the MOF and the SAT jointly issued the "Notice on Adjusting the Business Tax Policies on Individual Housing Transfers", which provides that: (i) where any individual sells a residential property held for less than two years after the day of purchase, the business tax thereon shall be collected in full amount; (ii) where any individual sells a non-ordinary residential property held for two years or more after the date of purchase, the business tax thereon shall be collected on the basis of the balance between the sales income and the purchase price of the house; (iii) where any individual sells an ordinary residential property held for two years or more after the day of purchase, he shall be exempt from the business tax thereon.

On March 30, 2015, the PBOC, MOHURD, and the CBRC jointly issued the "Notice on Issues concerning Individual Housing Loan Policies," which provides that: (i) where the family of an employee who contributes to the housing provident fund uses an entrusted housing provident fund loan to purchase its first ordinary housing unit for its own use, the minimum down payment ratio shall be 20%. (ii) where the family of an employee who contributes to the housing provident fund owns the housing unit, and the loan for the purchase of the housing unit has been paid off, if the family applies again for an entrusted housing provident fund loan to purchase an ordinary housing unit for its own living to improve its current living conditions, the minimum down payment ratio shall be 30%.

On February 1, 2016, the PBOC and the CBRA jointly issued the "Notice on Issues concerning Adjusting the Individual Housing Loan Policies," which provides that: (i) In cities where "housing purchase restriction" measures are not implemented, the minimum down payment ratio for commercial individual housing loans granted to households of residents for purchasing ordinary

housing units for the first time shall generally be 25%, and may be lowered by 5% by local governments; and 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 improve living conditions, the minimum down payment ratio shall not be less than 30%; (ii) In cities where “housing purchase restriction” measures are implemented, the individual housing loan policies shall remain unchanged.

Local Restrictive Measures

The following discussion relates to measures adopted by various cities in which we operate to restrict local property purchases. As of December 31, 2013, Shantou, Dongguan, Lingshui and Zhongshan had not issued laws or regulations restricting property purchases.

Shenzhen

The Notice of the General Office of People’s Government of Shenzhen City on Continuing Adjustment and Control of Property Markets (《深圳市人民政府辦公廳關於繼續做好房地產市場調控工作的通知》) (Shen Fu Ban [2013] No. 12) issued and implemented on March 31, 2013 sets forth specific measures for carrying out the No. 17 Notice and No. 11 Notice, including the following:

- **Strengthening the levy of tax on property**

Individual income tax payable on the sales of owner-occupied houses shall be strictly enforced pursuant to the No. 17 Notice. Property appraisal methods shall be improved to exert active effects on levying tax on property. Collection and administration of taxes on transactions involving existing housing inventory shall be continued to strengthen, and timely and appropriate adjustments to property appraisals shall be conducted in accordance with the housing price changes.

- **Strictly implementing differentiated credit extension policies based on housing types**

The Central Sub-branch of the PBOC may adjust the percentage of the minimum down payment and loan interest rates for second-home purchases according to policy requirements and the price control targets determined by Shenzhen City for newly-constructed commodity housing when necessary.

- **Strictly enforcing the purchase restrictions imposed on commodity housing**

Department of urban planning and land resources shall strengthen cooperation with departments for tax, civil administration, public security, social security and others to realize information sharing and to stop circumvention of purchase restrictions through remedial payments of social security, multiple household registers or other methods. Relevant departments shall strengthen investigations and punishments on irregularities and violations, such as providing false information, using deceptive means to obtain the filing for pre-sale contracts or and property transfer registrations, in order to firmly curb property speculation.

- **Further strengthening the market regulation and expectation management of the property market**

The credit management system of property industry shall be further improved. Unlawful sales shall be recorded into the relevant property enterprise’s credit files, and shall be resolved according to relevant regulations.

Guangzhou

Pursuant to the Implementation Opinion of the Office of Guangzhou People's Government on Relevant Matters about the Implementation of the Circular of the Office of State Council on the Further Improvement of Control over the Real Estate Market (《廣州市人民政府辦公廳關於貫徹國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知的實施意見》) (Sui Fu Ban [2011] No. 3) promulgated by Guangzhou People's Government on February 23, 2011, it temporarily was stipulated for Guangzhou from the date of issuing this opinion that any household with a local registered residence which has already owned one residence and any household without a local registered residence which is able to produce a local tax payment certificate or a proof of social insurance contribution for more than one year in total within two years shall be restricted to purchasing one residence (including newly constructed commodity housing and second-hand housing) within a specified period. In respect of any household with a local registered residence which has already owned two or more residences, any household without local registered residence which has already owned one or more residence(s), and any household without a local registered residence which is unable to provide a local tax payment certificate or a proof of social insurance contribution for more than one year in total within two years, no houses within such household's own city can be sold to such households for the time being. For any foreign institution's and individual's purchase of commodity housing, it must be strictly subject to relevant policies of the country. No registration for real estate will be made for any home purchase in breach of relevant provisions. Any person without a local registered residence who fulfills the conditions of high-level talent specified in the Opinions of the Guangzhou People's Government of the Party Committee of Guangzhou, PRC on Faster Attracting and Cultivating High-level Talents (《中共廣州市委廣州市人民政府關於加快吸引培養高層次人才的意見》) (Sui Zi [2010] No. 11) has no residence in Guangzhou may purchase one residence.

Opinions on Implementation of the Notice about Forwarding Notice of the General Office of the State Council on Continuing Adjustment and Control of Property Markets issued and implemented by General Office of the People's Government of Guangdong Province issued and implemented by General Office of the People's Government of Guangzhou Municipality (《廣州市人民政府辦公廳關於貫徹廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控通知的實施意見》) (Sui Fu Ban [2013] No. 14) on March 31, 2013 set forth more specific measures for adjustment and control of property market under the No. 17 Notice and No. 11 Notice, including the following:

- **Effectively implementing the accountability system for stabilizing housing prices**

Rises in prices of newly-constructed commodity housing (excluding affordable housing) should be lower than actual rises in capita disposable income of urban residents in Guangzhou.

- **Firmly enforcing purchase restrictions imposed on commodity housing**

A family without local household register that is able to provide proofs for one consecutive year of local tax payments or social insurance contributions within two years before the date of purchase is limited to purchasing one house (including newly-constructed commodity housing and second-hand housing). A family without local household register shall not purchase houses through certifications of remedial payments of local tax or social insurance.

The Guangzhou branch of the PBOC may further raise the percentage of the minimum down payment and loan interest rates for second-home purchases according to policy requirements and the price control targets for newly-constructed commodity housing in Guangzhou in 2013.

Individual income tax payable on the sales of owner-occupied houses shall be strictly enforced pursuant to the No.17 Notice. The collection and administration of the land appreciation tax shall be reinforced, and collection of the land appreciation tax of property projects shall be conducted with increased efforts.

- **Increasing supply of small and medium-sized ordinary commodity housing and land for property construction**

The land supply for affordable housing and middle to low-priced, small and medium-sized units housing should be not lower than 70% of the total land supply for housing. Land supply for low-density housing with volume ratios equal to or lower than one shall be prohibited.

A fast-track administrative examination and approval channel for construction projects of small and medium-sized ordinary commodity housing which are below 90 sq.m. shall be established. Where more than 70% of the total units developed and built under an ordinary commodity housing construction project are small and medium-sized units, banking financial institutions shall give priority to supporting the project's credit needs as long as credit extension conditions are satisfied.

- **Strengthening the market regulation and expectation management of the property market**

The issuance of pre-sale permits may be temporarily suspended for commodity housing projects that command excessively high prices in their pre-sale programs and that refuse to be directed by the land resources and housing administrative departments.

Guangzhou's Land Resources and Housing Administrative Bureau shall take the lead and cooperate with departments for industry and commerce, price control, construction and other departments to increase rectifications and regulations of the order of property market, to focus on investigating illegalities and irregularities such as violations of housing purchase restriction policies, unlawful sales, unlawful property brokerage, driving up prices and publishing false advertisements.

CIVIL AIR DEFENSE PROPERTY

There are several laws and regulations in the PRC regarding the civil air defense project construction, including Law of the People's Republic of China on National Defense (《中華人民共和國國防法》), Civil Air Defense Law of the People's Republic of China (《中華人民共和國人民防空法》), Property Law of the People's Republic of China (《中華人民共和國物權法》), Measures of the Development and Utilization of Civil Air Defense Construction during Peacetime (《人民防空工程平時開發利用管理辦法》) and several Opinions regarding Further Advancing the Development of Civil Air Defense by the State Council and the Central Military Commission (《國務院、中央軍委關於進一步推進人民防空事業發展的若干意見》). According to such laws and regulations, basements that will be used for air defense in time of war shall be constructed in new buildings of cities for civil defense use. If any construction project cannot have basements due to any geological reason, fees for substitute site construction shall be paid. Investors of air defense construction shall be entitled to any benefits generated from its usage and shall manage such construction in the peacetime. Civil use of air defense construction shall be registered with relevant air defense authority by the users. According to the Civil Air Defense Law of the PRC (《中華人民共和國人民防空法》) which was promulgated on October 29, 1996 and amended on August 27, 2009, the government encourages and supports enterprises, institutions, public organizations and individuals to invest in various ways in construction of civil air defense works. In time of peace, such works shall be used and managed by the investors and the income there from shall be owned by them. The government encourages peacetime use of civil air defense works for economic development and the daily lives of the people. However, such use may not impair their functions as air defense works.

ENVIRONMENTAL PROTECTION

The PRC Environmental Protection Law (《中華人民共和國環境保護法》), which was promulgated on December 26, 1989, revised on April 24, 2014 and became effective on January 1, 2015, sets out the legal framework for environmental protection in the PRC. Pursuant to the Environmental Protection Law, developers shall conduct environmental impact assessment for preparation of the relevant development and utilization plans and construction of environment-

affected projects. Any development and utilization plan without the environmental impact assessment may not be organized for implementation, and any construction project without the environmental impact assessment may not commence construction work.

Under the Regulations for Administration of Environmental Protection in Construction Projects (建設項目環境保護管理條例), or Environmental Regulations, issued by the State Council on November 29, 1998 and effective as of the same date and amended on July 16, 2017, each construction project is subject to an environmental impact assessment by the relevant authorities.

The Law of the People's Republic of China on Environmental Impact Assessments (中華人民共和國環境影響評價法), adopted by the National People's Congress on October 28, 2002 and amended on July 2, 2016 and December 29, 2018, provides that if the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, and the construction work unit may not commence work.

Pursuant to Opinions on the Application of Laws against Violations of Constructing before approval (《關於建設項目“未批先建”違法行為法律適用問題的意見》) issued by Ministry of Environmental Protection, which was in effective on February 22, 2018, environmental protection authorities abolished the post-register measure as a remedy or penalty in accordance to the Environmental Protection law and Environmental Impact Assessments Law.

Pursuant to these laws and regulations, depending on the impact analysis table or an environmental impact registration form must be submitted by the developer before the relevant authorities grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

OVERSEAS LISTING

Pursuant to the Provisions on Mergers and Acquisitions of a Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (Decree No. 6 [2009] of the MOFCOM) jointly issued by MOFCOM, the State Assets Supervision and Administration Commission, SAT, SAIC, CSRC and SAFE on August 8, 2006, and amended on June 22, 2009 by MOFCOM, a special-purpose company shall mean an overseas company directly or indirectly controlled by a domestic company or natural person in China to materialize overseas listing of the interests in a domestic company actually held by the domestic company or natural person. Where a special purpose company to be listed overseas, the listing shall be proved by the securities regulatory authority under the State Council.

FOREIGN EXCHANGE CONTROL

Pursuant to the Regulations of the PRC for the Control of Foreign Exchange (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and amended on January 14, 1997 and August 5, 2008, the State shall not restrict regular international payments and transfers. The enterprises may either repatriate their foreign exchange incomes back or deposit the same abroad, and the conditions and terms for repatriating their foreign exchange incomes back or depositing in overseas countries shall be regulated by the administration of foreign exchange under the State Council depending on the balance of international payments and the needs for foreign exchange control. Where the foreign exchange incomes under capital accounts are to be retained or sold to financial institutions which are engaged in settlement and sales of foreign exchange, approvals of foreign exchange control authorities are required, except as otherwise permitted by the state.

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles (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), which is called SAFE Circular No. 37, promulgated by the SAFE and became effective on

July 4, 2014, a PRC citizen residing in the PRC (a “PRC Resident”) must register with the local branch of SAFE if a PRC Resident directly establish or indirectly control an overseas special purpose vehicle for the purpose of overseas investment and financing with the assets of or equity interests in a domestic enterprise or the overseas assets or equity interests which are owned by a PRC Resident.

The Notice on Regulating Issues Relevant to Administration of Foreign Exchange in Property Market (《關於規範房地產市場外匯管理有關問題的通知》) (Huifa [2006] No. 47) jointly issued by SAFE and the MOHURD on September 1, 2006, and partly amended by the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) (Huifa [2015] No. 20) issued by SAFE on May 4, 2015, provides: (i) where a foreign-invested property enterprise fails to acquire a 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 will not handle its foreign debt registration or approve the conversion of foreign debt; (ii) where a foreign organization or individual acquires a domestic property enterprise, if it (he) fails to pay the transfer price in a lump sum by its (his) own fund, the foreign exchange bureau will not handle the registration of foreign exchange income from transfer of equities; (iii) Chinese and foreign investors of a foreign-invested property enterprise shall not reach an agreement including any clause which promises 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 modification of foreign-invested enterprise; and (iv) funds in a foreign exchange account exclusive to foreign investors opened by a foreign organization or individual in a domestic bank shall not be used for property development or operation. The Notice also provides for a foreign exchange working process related to branches of overseas institutions established within China, overseas individuals, Hong Kong, Macau or Taiwan residents and overseas Chinese purchasing or selling commodity houses within China.

The Measures for Administration of Foreign Debt Registration (《外債登記管理辦法》), which were promulgated by the SAFE on April 28, 2013 and became effective on May 13, 2013, and partly amended by the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) (Huifa [2015] No. 20) issued by SAFE on May 4, 2015, stipulate the general provisions on foreign debt registration, administrative provisions on foreign debt account management, use and settlement of foreign debt funds, foreign guarantees for domestic loans, foreign exchange management for outbound transfers of non-performing assets, and the relevant penal provisions.

The Operating Guidelines for Foreign Debt Registration Administration (《外債登記管理操作指引》), which became effective on May 13, 2013, provide specific operational rules in relation to foreign debts administration, and regulate the foreign debt registration of foreign invested real estate enterprises as follows:

- foreign invested real estate enterprises which increase their equity interest capital on and after June 1, 2007 may raise foreign debt financing, which limited to an amount which is the smaller of (i) the difference between the total investment and the registered capital after the capital increase, and (ii) the difference between the total investment and the registered capital before the capital increase, and
- the SAFE will no longer process foreign debt registration or foreign exchange settlement for foreign debt for foreign invested real estate enterprises that obtained approval certificates from MOFCOM, which were filed with MOFCOM on or after June 1, 2007.

In accordance with the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (Hui Fa [2015] No. 19) (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知(匯發[2015]19號)), was promulgated on March 30, 2015 by the State Administration of Foreign Exchange, and became effective on June 1, 2015, the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and

interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. The SAFE can adjust the aforementioned proportion in due time based on the situation of international balance of payments.

On June 9, 2016, SAFE issued the “Notice to Reform and Regulate the Administration Policies of Foreign Exchange Capital Settlement” (關於改革和規範資本項目結匯管理政策的通知) to further reform foreign exchange capital settlement nationwide.

According to the Notice on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises’ Issuance of Foreign Debts (關於推進企業發行外債備案登記制管理改革的通知) (“NDRC Circular”), issued by NDRC on September 14, 2015, the issuance of foreign debts (including notes, bonds or other debts) with a term of more than one year shall apply for record-filing and registration to the NDRC in advance.

The main provisions of the NDRC Circular are listed below:

- abolish the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system. Achieve the supervision and administration of the size of foreign debts borrowed on a macro level through the record-filing, registration, and information reporting of the issuance of foreign debts by enterprises;
- before the issuance of foreign debts, enterprises shall first apply to the NDRC for the handling of the record-filing and registration procedures and shall report the information on the issuance to NDRC within ten working days of completion of each issuance;
- record-filing and registration materials to be submitted by an enterprise for the issuance of foreign debts shall include: application report for the issuance of foreign debts and issuance plan, including the currency, size, interest rate, and maturity of foreign debts, the purpose of the funds raised and back flow of funds. The applicant shall be responsible for the authenticity, legality, and completeness of the application materials and information;
- the NDRC shall decide whether to accept the application for record-filing and registration within 5 working days of receiving it and shall issue a Certificate for Record-filing and Registration of the Issuance of Foreign Debts by Enterprises (企業發行外債備案登記證明) within 7 working days of accepting the application and within the limit of the total size of foreign debts;
- the issuer of foreign debts shall handle the procedures related to the outflow and inflow of foreign debt funds with the Certificate for Record-filing and Registration according to the regulations. When the limit of the total size of foreign debts is exceeded, the NDRC shall make a public announcement and no longer accept applications for record-filing and registration; and
- if there is a major difference between the actual situation of the foreign debts issued by the enterprises and the situation indicated in the record-filing and registration, an explanation shall be given when reporting relevant information. The NDRC shall enter the poor credit record of an enterprise which maliciously and falsely reports the size of its foreign debts for record-filing and registration into the national credit information platform.

An overseas enterprise controlled by a PRC company or PRC residents shall undergo the prescribed record-filing and registration procedures to the NDRC before the issuance of such foreign debts.

On December 26, 2017, NDRC issued the “Administrative Measures for the Outbound Investment of Enterprises” (企業境外投資管理辦法), or the Measures, effective from March 1, 2018. Under the Measures, sensitive outbound investment projects carried out by PRC enterprises either directly or through overseas enterprises under their control shall be approved by NDRC, and non-sensitive outbound investment projects directly carried out by PRC enterprises shall be filed with NDRC or its local branch at provincial level. In the case of the large-amount non-sensitive outbound investment projects with the investment amount of USD300 million or above carried out by PRC enterprises through the overseas enterprises under their control, such PRC enterprises shall, before the implementation of the projects, submit a report describing the details about such large-amount non-sensitive projects to NDRC through the network system. Where the PRC resident natural persons make outbound investments through overseas enterprises under their control, the Measures shall apply mutatis mutandis.

EMPLOYEE SHARE OWNERSHIP PLANS OR SHARE OPTION PLANS

The Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法) which was promulgated by the PBOC on December 25, 2006 and became effective on February 1, 2007, and its Implementation Rules, which was promulgated by the SAFE in January 5, 2007 and became effective on February 1, 2007, requires PRC individuals, who are granted shares or share options pursuant to an employee share option or share incentive plan by an overseas listed company, to register with the SAFE or a local SAFE department. On February 15, 2012, the SAFE promulgated the Notice on Relevant Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) which replaced the Operational Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Ownership Plans and Share Option Plans of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued by the SAFE on March 28, 2007. Under the notice, PRC residents who participate in share incentive plan in an overseas listed company are required to register with the SAFE or its local branches and complete certain other procedures as required by the authorities. Participants of a share incentive plan who are PRC residents shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the share incentive plan if there is any material change to the share incentive plan, change in the PRC agent or the overseas entrusted institution, or any other material changes.

MANAGEMENT

Our board of directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our board as of the date of this offering memorandum:

<u>Name</u>	<u>Age</u>	<u>Position & Responsibilities</u>
Kei Hoi Pang (紀海鵬), elder brother of Ji Jiande	52	Chairman and Executive Director, primarily responsible for the overall strategic planning of our business
Ji Jiande (紀建德), younger brother of Kei Hoi Pang . .	44	Executive Director, Chief Executive Officer, primarily responsible for managing the business of Shantou region as well as our construction and material procurement
Xiao Xu (肖旭).	47	Executive Director and vice president, primarily responsible for implementing our strategic development, investment analysis and external affairs
Lai Zhuobin (賴卓斌)	47	Executive Director and Chief Financial Officer, primarily responsible for our financial management and capital markets functions
Kei Perenna Hoi Ting (紀凱婷), daughter of Kei Hoi Pang	29	Non-executive Director
Zhang Huaqiao (張化橋)	55	Independent Non-executive Director
Liu Ka Ying, Rebecca (廖家瑩)	49	Independent Non-executive Director
Cai Suisheng (蔡穗聲)	68	Independent Non-executive Director

DIRECTORS

Executive Directors

Mr. Kei Hoi Pang (紀海鵬), (formerly known as Mr. Ji Haipeng), aged 52, was appointed as our Executive Director on November 18, 2013. Mr. Kei is our founder and Chairman. Mr. Kei was appointed as our chief executive officer in April 2011 and he has resigned and stepped down from this position with effect from 29 January 2018. He is primarily responsible for the overall strategic planning of our business. He is the elder brother of Mr. Ji Jiande, an Executive Director. In March 1996, Mr. Kei was appointed as an executive director and chief executive officer of Guangdong Logan (Group), one of our predecessors. Since May 2003 and October 2009, Mr. Kei has also served as a director and chief executive officer of Logan Real Estate and Shenzhen Logan Holdings, respectively. Mr. Kei has 22 years of experience in the property development industry and possessed experience in corporate strategic planning and management as well as project management.

Apart from the above, Mr. Kei had also held positions in various organizations and associations, including as the Member of Thirteenth National Committee of the Chinese People's Political Consultative Conference (十三屆全國政協委員), the vice president of the second council of Shantou Real Estate Association (汕頭市房地產業協會第二屆理事會) and Guangdong Provincial Real Estate Association (廣東省房地產業協會). In 2005, Mr. Kei was recognized as the "Excellent Business Contributor of Socialism with Chinese Characteristics of Guangdong Province (廣東省優秀中國特色社會主義事業建設者)" which was presented by the Guangdong Provincial United Front

Work Department of the Communist Party of China (中共廣東省委統戰部), the Provincial Development and Reform Commission (省發展和改革委員會), the Provincial Office of Personnel (省人事廳), the Provincial Administration for Industry and Commerce (省工商局) and the Provincial Federation of Industry and Commerce (省工商聯).

Mr. Ji Jiande (紀建德), aged 44, was appointed as our Executive Director on November 18, 2013. Mr. Ji Jiande is also our Chief Executive Officer, primarily responsible for managing the business of Shantou region. He is also in charge of our construction and material procurement. He is the younger brother of Mr. Kei Hoi Pang, our Chairman and an Executive Director. Mr. Ji joined Logan Real Estate in 2006 and served as our general manager of various companies. Since October 2008 and December 2008, Mr. Ji also served as a director of Logan Construction and Logan Real Estate, respectively. In December 2009, Mr. Ji Jiande was appointed as a director of Shenzhen Logan Holdings, primarily responsible for our operational management, construction and material management. Mr. Ji is also the representative of the Thirteenth Guangdong People's Congress (廣東省十三屆人大代表).

Mr. Xiao Xu (肖旭), aged 47, was appointed as our Executive Director on November 18, 2013. He is also our vice president. Mr. Xiao is mainly responsible for implementing our strategic development, investment analysis and external affairs. Mr. Xiao was employed by Logan Real Estate in 2007 and held various senior management positions in Logan Real Estate during the period from August 2007 to April 2011, prior to his appointment as the assistant to the president of Shenzhen Logan Holdings in April 2011. He has substantial experience in investment analysis, corporate management secretarial work and external liaison. Mr. Xiao obtained a bachelor's degree in business management from Jinan University (暨南大學) in June 1993 and obtained a postgraduate diploma in economics from the Party School of Chinese Communist Party of Guangdong Province (中共廣東省委黨校) in July 1998.

Mr. Lai Zhuobin (賴卓斌), aged 47, was appointed as our Executive Director on November 18, 2013. He is also our Chief Financial Officer. Mr. Lai is mainly responsible for our financial management and capital markets functions. Mr. Lai was employed by Logan Real Estate in 2007 and held various senior positions within the financial management division during the period from November 2007 to May 2011. In May 2011, Mr. Lai was appointed and has since served as the financial controller of Shenzhen Logan Holdings. He is a member of the Chinese Institute of Certificate Public Accountants. Mr. Lai obtained a bachelor's degree in science from Sun Yat-sen University (中山大學) in July 1993 and obtained a master's degree in engineering from Beijing Institute of Technology in July 2003.

Non-executive Director

Ms. Kei Perenna Hoi Ting (紀凱婷) (formerly known as Ms. Ji Peili (紀佩麗)), aged 29, was appointed as our Director on May 14, 2010 and was re-designated as a Non-executive Director on November 18, 2013. She is the daughter of Mr. Kei Hoi Pang, our Chairman and an Executive Director. In August 2011, Ms. Kei obtained a bachelor's degree in economics and finance from the University of London.

Independent Non-executive Directors

Mr. Zhang Huaqiao (張化橋), aged 55, was appointed as our Independent Non-executive Director on November 18, 2013. Mr. Zhang is the chairman of the board of China Smartpay Group Holdings Limited (formerly known as "Oriental City Group Holdings Limited"), a company listed on the Stock Exchange. Mr. Zhang is a director of various companies the shares of which are listed on the Stock Exchange, including as an independent non-executive director of Fosun International Limited (Stock Code: 656), an independent non-executive director of Zhong An Real Estate Limited (Stock Code: 672), a non-executive director of Bower Power Holdings Limited (Stock Code: 1685), Oriental City Group Holdings Limited (Stock Code: 8325), an independent non-executive director of China Huirong Financial Holdings Limited (Stock Code: 1290), an independent non-executive director of Luye Pharma Group Ltd., and an independent non-executive director of Ernest Borel

Holdings Limited. Since February 2013, Mr. Zhang has also been a director of Nanjing Central Emporium Group Stocks Co., Ltd. (600280.SS), a company the shares of which are listed on the Shanghai Stock Exchange and an independent non-executive director of Yancoal Australia Ltd., a company listed on the Australia Securities Exchange. From June 1999 to April 2006, Mr. Zhang had worked with UBS AG, Hong Kong Branch and held positions as a director, executive director, managing director and the co-head of its China research team. From September 2011 to April 2012, Mr. Zhang also served as an executive director and chief executive officer of Man Sang International Limited (Stock Code: 938), a company whose shares are listed on the Stock Exchange. Mr. Zhang obtained a master's degree in economics from the Graduate School of the People's Bank of China in July 1986 and obtained a master's degree in economics of development from the Australian National University in April 1991.

Ms. Liu Ka Ying, Rebecca (廖家瑩), aged 49, was appointed as our Independent Non-executive Director on November 18, 2013. From June 1996 to March 2002, Ms. Liu served as the general manager for the Asia and China region of The PRG-Schultz International, Inc., a company listed on NASDAQ. In January 2007, Ms. Liu was appointed as the chief executive officer of AllPanther Asset Management Limited (竣富(資產)管理有限公司) and served at such position since then. She possesses experience in management, investment in real estate development and private investment funds, as well as accounting and financial management.

Ms. Liu is a member of the American Institute of Certified Public Accountants (AICPA), Illinois CPA Society (ICPAS) of the United States and Hong Kong Institute of Certified Public Accountants (HKICPA). Ms. Liu obtained a double bachelor's degree in Business Administrative Studies from York University, Canada with major in management and in accounting (with honours) in 1992 and 1994, respectively. She also obtained a doctoral's degree in business administration from Victoria University of Switzerland in November 2011. She is also a member of the Tenth Jilin Provincial Committee of the Chinese People's Political Consultative Conference, Hong Kong Institute of Bankers, Association of Women Accountants (Hong Kong) Limited and Hong Kong Professionals and Senior Executives Association and Hong Kong China Chamber of Commerce.

Mr. Cai Suisheng (蔡穗聲), aged 68, was appointed as our Independent Non-executive Director on November 18, 2013. Mr. Cai is currently the president of Guangdong Provincial Real Estate Association (廣東省房地產行業協會) and a member of the Housing Policy Expert Committee of the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部住房政策專家委員會). Also, in 2004, Mr. Cai was a visiting scholar at the Institute of Housing and Urban Research of Uppsala University in Sweden (瑞典烏普薩拉大學住房與城市發展研究所). From 2006 to 2010, Mr. Cai served as a standing director of the China Real Estate Association (中國房地產業協會). In June 2014, Mr. Cai was re-designated from independent non-executive director to external director of Guangzhou Pearl River Industrial Development Co., Ltd. (廣州珠寶業關發股份有限公司), a company listed on the Shanghai Stock Exchange. In October 2013, Mr. Cai was appointed as emeritus professor of the department of urban planning and design of the University of Hong Kong and as visiting professor of College of Real Estate of Beijing Normal University (Zhu). Mr. Cai has in-depth knowledge and extensive experience in real estate policy, market and urban management and has published numerous articles and reviews regarding the real estate market, housing policy as well as urban development and management in various newspapers and publications.

SENIOR MANAGEMENT

The table below sets forth certain information concerning our other senior management members:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kei Hoi Pang (紀海鵬)	52	Chairman
Ji Jiande (紀建德)	44	Chief Executive Officer
Xiao Xu (肖旭)	47	Vice president
Lai Zhuobin (賴卓斌)	47	Chief Financial Officer
Huang Xiangling (黃湘玲)	42	Vice president, primarily responsible for the management of our president's office and public affairs

Please refer to the section entitled "Directors" above for the biographies of Mr. Kei Hoi Pang, Mr. Ji Jiande, Mr. Lai Zhuobin and Mr. Xiao Xu.

Ms. Huang Xiangling (黃湘玲), aged 42, is a vice president of our Company. She is mainly responsible for the management of our president's office and public affairs. Ms. Huang joined Logan Real Estate in 2005. Since August 2005 and May 2011, Ms. Huang has served as the general manager of Shantou Logan Property and assistant to the president of Shenzhen Youkaisi, respectively. Ms. Huang has extensive experience in project management, internal management and external liaison. Ms. Huang obtained a diploma in public affairs management from Zhejiang University (浙江大學) in June 2007 through long-distance learning.

COMPANY SECRETARY

Ms. Li Yan Wing, Rita (李昕穎), aged 50, is a director of the corporate services division of Tricor Services Limited. Ms. Li is a chartered secretary and a fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 24 years' experience in corporate advisory services. Prior to joining Tricor Services Limited, Ms. Li served as a senior manager of the company secretarial department of Tengis Limited. Ms. Li currently also serves as the company secretary of China Outfitters Holdings Limited (stock code: 1146) and Kee Holdings Company Limited (stock code: 2011), companies whose shares are listed on the Stock Exchange.

BOARD COMMITTEES

Audit Committee

We have established an audit committee on November 18, 2013 with written terms of reference in compliance with the Listing Rules. The audit committee consists of three Independent Non-executive Directors, Ms. Liu Ka Ying, Rebecca (being the chairman of the audit committee who has a professional qualification in accountancy), Mr. Cai Suisheng and Mr. Zhang Huaqiao. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee on November 18, 2013 with written terms of reference in compliance with the Listing Rules. The remuneration committee consists of three members, two of whom are Independent Non-executive Directors, being Ms. Liu Ka Ying, Rebecca and Mr. Zhang Huaqiao, as well as our Executive Director, Mr. Kei Hoi Pang. The remuneration committee is chaired by Mr. Zhang Huaqiao. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors regarding our policy

and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to a share option scheme.

In 2017 and 2018, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to our profit performance and the individual performance of our Directors and senior management members.

Nomination Committee

We have established a nomination committee on November 18, 2013 with written terms of reference. The nomination committee consists of three members, namely Mr. Kei Hoi Pang, Mr. Zhang Huaqiao and Ms. Liu Ka Ying, Rebecca. Two of the members are our Independent Non-executive Directors. The chairman of the nomination committee is Mr. Kei Hoi Pang. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors in 2017 and 2018, was RMB69.8 million and RMB72.4 million (US\$10.5 million), respectively.

The aggregate amount of remuneration, including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by us to our five highest paid individuals in 2017 and 2018 was RMB69.1 million and RMB73.0 million (US\$10.6 million) respectively.

No remuneration was paid by us to the Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in 2017 and 2018. Further, none of our Directors waived any remuneration during the same periods.

SHARE OPTION SCHEME

Our shareholders adopted a share option scheme on November 18, 2013 in accordance with the Listing Rules. Our board may, at its discretion, offer to grant an option to subscribe for such number of new shares as it may determine at a price to any of our full-time or part-time employees, executives, officers, Directors (including Independent Non-executive Directors), advisors, consultants, suppliers, customers, distributors, agents and any such other persons who in the sole opinion of our board, will contribute or have contributed to us. The share option scheme shall be valid and effective for a period of ten years from the date of its adoption and no option may be exercised more than ten years after it has been granted.

The maximum number of shares in respect of which options may be granted under our share option scheme must not exceed 30% of the shares in issue from time to time. On August 25, 2017, the Company granted 70,762,000 share options (the “Share Options”) to subscribe for the ordinary shares of the Company, comprising: (i) 24,250,000 Share Options to certain directors of the Company; and (ii) 46,512,000 Share Options to certain employees of the Company and its subsidiaries under the share option scheme of the Company adopted on November 18, 2013. On June 8, 2018, we granted 50,000,000 share options to certain employees of us and our subsidiaries to subscribe for our ordinary shares under our share option scheme adopted on November 18, 2013. On October 22, 2018, we granted 36,400,000 share options to certain employees of us and our subsidiaries to subscribe for our ordinary shares under our share option scheme adopted on November 18, 2013. On June 28, 2019, we granted 10,500,000 share options to certain employees of us and our subsidiaries to subscribe for our ordinary shares under our share option scheme adopted on November 18, 2013. As of the date of this offering memorandum, we have granted a total of 365,922,000 shares options to certain Directors and employees of the Group of which 35,589,750 share options were exercised and 206,960,500 share options are outstanding.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding shares as of the date of this offering memorandum by those persons who beneficially own more than 5% of our outstanding shares, as recorded in the register maintained by us pursuant to Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong (the “SFO”)):

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares⁽¹⁾</u>	<u>Approximate percentage of interest in us⁽⁴⁾</u>
Mr. Kei Hoi Pang	Beneficiary of a family trust, interest of a controlled corporation	4,251,600,000 (L)	77.56%
	Beneficial owner	19,480,000 (L)	0.35%
Ms. Kei Perenna Hoi Ting	Beneficiary of the Family Trust, interest of controlled corporations ⁽²⁾	4,251,600,000 (L)	77.56%
	Beneficial owner	3,593,750 (L)	0.07%
Junxi Investments Limited ⁽³⁾	Beneficial owner	3,401,600,000 (L)	62.05%
Kei Family United Limited ⁽³⁾	Interest of a controlled corporation	3,401,600,000 (L)	62.05%
Brock Nominees Limited ⁽³⁾	Nominee	3,401,600,000 (L)	62.05%
Tenby Nominees Limited ⁽³⁾	Nominee	3,401,600,000 (L)	62.05%
Credit Suisse Trust Limited ⁽³⁾	Trustee	3,401,600,000 (L)	62.05%
Dragon Jubilee Investments Limited	Beneficial owner	425,000,000 (L)	7.78%

Notes:

- (1) The letter “L” denotes the person’s long position in the shares.
- (2) Ms. Kei is also indirectly interested in us through Dragon Jubilee Investments Limited, Gao Run Holdings Limited and Thrive Ally Limited, which owned collectively 15.51% interests in us.
- (3) Ms. Kei is the settlor and a beneficiary of a family trust, which is a trust set up to hold the interest of Ms. Kei and her family (excluding Mr. Kei) in us. The family trust is interested in the entire interest of the Kei Family United Limited which in turns hold the entire interest in the Junxi Investments Limited. Further, Mr. Kei is considered to be interested in our shares through Junxi Investments Limited and Ms. Kei as (i) Junxi Investments Limited is a company which is entirely owned by the family trust to which Ms. Kei is the settlor and a beneficiary and (ii) Ms. Kei being a person accustomed to act in accordance with Mr. Kei’s directions.
- (4) The percentage is calculated based on the total number of shares as at the date of this offering memorandum.

Except as disclosed above, as of the date of this offering memorandum, no other parties had registered an interest or short position in our shares or underlying shares that was required to be recorded pursuant to Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

Material related party transactions identified during the periods and balances with these related parties at those dates are summarized as follows:

- (a) (i) Remuneration of key management personnel, including amounts paid to the directors and senior management:

	For the year ended December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
Short-term employee benefits	94,501	97,142	14,129
Post-employment benefits	—	—	—
	94,501	97,142	14,129

(ii) Our Group had the following transactions with related parties:

	For the year ended December 31,		
	2017	2018	
	RMB'000	RMB'000	US\$'000
Construction contracts income from related companies ⁽¹⁾	73,419	134,133	19,509
Construction contracts income from joint ventures	1,104,356	4,634,367	674,041
Project management service income from joint ventures	—	261,873	38,088
Management service income fee from joint ventures	23,885	194,217	28,248
Decoration income from related companies	—	8,754	1,273
Decoration income from joint ventures	20,104	241,213	35,083
Design fee from related companies	10,070	—	—
Design fee from joint ventures	75,442	181,822	26,445
Rental income from related companies	6,705	1,532	223
Rental income from associates	—	4,109	598
Rental income from joint ventures	4,547	287	42
Interest income from associates and joint ventures	551,037	899,999	130,899
Deemed disposal of subsidiaries to joint ventures	1,006,332	—	—
Disposal of subsidiaries to joint ventures	250,000	—	—

Note:

(1) We were engaged for the construction projects of related companies, including Logan Real Estate Holdings Co., Ltd. (龍光地產有限責任公司)*, Nanning Logan Century Property Co., Ltd. (南寧市龍光世紀房地產有限公司)*, Fangchenggangshi Tianjun Investment Co., Ltd. (防城港市天駿投資有限公司)*, Shantou Tianyue Investment Co., Ltd. (汕頭市天悅投資有限公司)*, Huizhou Daya Bay Investment Co., Ltd. (惠州大亞灣龍光投資有限公司)*, Huizhou Daya Bay Tianhui Investment Co., Ltd (惠州大亞灣天暉投資有限公司)*, Shantou Jinjun Investment Consulting Co., Ltd. (汕頭市順金駿投資諮詢有限公司)* and Foshan Shunde Logan Property Co., Ltd. (佛山市順德區龍光房產有限公司)* on normal commercial terms and in the ordinary course of business.

As of December 31, 2018, none of our bank loan was pledged by assets held by our related companies.

(b) As of the balance sheet dates, we had the following balances with related companies/parties:

	As of December 31,		
	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>US\$'000</i>
(i) Amounts due from related companies Fangchenggangshi Tianjun Investment Co., Ltd. (防城港市天駿投資有限公司)	16,779	16,279	2,368
Guangdong Logan Group Property Management Co., Ltd. (廣東龍光集團物業管理有限公司)*	1,031	48,348	7,032
Nanning Logan Century Property Co., Ltd. (南寧市龍光世紀房地產有限公司).	8,517	8,517	1,239
Shantou Jinjun Investment Consulting Co., Ltd. (汕頭市金駿投資諮詢有限公司)*	11,973	11,973	1,741
Huizhou Daya Bay Logan Investment Ltd. (惠州大亞灣龍光投資有限公司)	79	79	11
Logan Real Estate Co., Ltd. (龍光地產有限責任公司).	59,959	42,358	6,161
Huizhou Daya Bay Logan City Davis Hotel Co., Ltd. (惠州大亞灣龍光城戴斯酒店有限公司)	6,781	773	112
Shantou City Logan Jiayue Real Estate Development Limited (汕頭市龍光嘉悅房地產開發有限公司)	—	699	102
Huizhou Daya Bay Tianhui Investment Co. Ltd. (惠州大亞灣天暉投資有限公司)	5,499	1,624	236
Shantou City Logan Mingjun Property Co., Ltd. (汕頭市龍光銘駿房地產有限公司)	20,133	44,069	6,410
Shantou Logan City Sheraton Hotel (汕頭龍光喜來登酒店)	—	939	137
Guangxi Logan Huida High Way Investment Co., Ltd. (廣西龍光匯達高速公路投資有限公司)	—	6,000	873
	<u>130,751</u>	<u>181,658</u>	<u>26,421</u>
(ii) Amounts due to related companies			
Logan Real Estate Co., Ltd. (龍光地產有限責任公司)	300	5	1
Huizhou Daya Bay Investment Co., Ltd. (惠州大亞灣龍光投資有限公司)	4,745	7,746	1,127
GuangDong Logan (Group) Property Management Co., Ltd (廣東龍光集團物業管理有限公司).	1,392	427	62
Fangchenggangshi Tianjun Investment Co., Ltd. (防城港市天駿投資有限公司).	500	—	—
Huizhou Daya Bay Logan City Davis Hotel Co., Ltd. (惠州大亞灣龍光城戴斯酒店有限公司)	7	7	1
Nanning City Logan Century Property Co., Ltd. (南寧市龍光世紀房地產有限公司)	21	—	—
Logan Communication Group Co., Ltd. (龍光交通集團有限公司)	64	—	—
Guangxi Logan Huida High Way Investment Co., Ltd. (廣西龍光匯達高速公路投資有限公司)	372	2,988	435
Shantou City Logan Jiayue Real Estate Development Ltd. (汕頭市龍光嘉悅房地產開發有限公司)	—	3,077	448
	<u>7,401</u>	<u>14,250</u>	<u>2,073</u>

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into loan agreements with various financial institutions. As of December 31, 2018, our total outstanding borrowings (excluding the Existing Notes and Corporate Bonds) amounted to RMB21,544.1 million (US\$3,133.5 million). Subsequent to December 31, 2018, we have issued the Additional January 2017 Notes and the February 2019 Notes. Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

PRC BANK LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including Industrial and Commercial Bank of China, China Construction Bank, Hua Xia Bank, China CITIC Bank, Shanghai Pudong Development Bank, Agricultural Bank of China and Guilin Bank. These PRC bank loans include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from one year to five years, which generally correspond to the construction periods of the particular projects. As of December 31, 2018, the aggregate outstanding amount under these PRC bank loans totaled approximately RMB14,457.1 million (US\$2,102.7 million), of which RMB7,644.4 million (US\$1,111.8 million) was due within one year, RMB4,121.5 million (US\$599.4 million) was due between one and two years, RMB2,691.2 million (US\$394.1 million) was due between two and five years. Our PRC bank loans are typically secured by land use rights and properties as well as guaranteed by certain of our PRC subsidiaries.

Interest

The principal amounts outstanding under these PRC bank loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum. Floating interest rates are generally subject to review by the banks annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2018, the weighted average interest rate on the aggregate outstanding amount of these PRC bank loans was 6.1% per annum.

Covenants

Under these PRC bank loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay the loans;
- grant guarantees to any third parties that may adversely affect their ability to repay the loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts that may adversely affect their ability to repay the loans;
- prepay the loans; and
- transfer part or all of their liabilities under the loans to a third party.

Events of Default

These PRC bank loans contain certain customary events of default, including insolvency, material adverse change in the collateral and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

Our Company and certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of these PRC bank loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these PRC bank loans. Further, as of December 31, 2018, RMB5,130.9 million (US\$746.3 million) of these PRC bank loans were secured by land use rights and/or other assets and properties of the subsidiary borrowers and/or our other PRC subsidiaries.

Dividend Restrictions

Pursuant to these PRC bank loans with certain PRC banks, some of our PRC subsidiaries, including Foshan Shunde Logan Boshen Real Estate Co., Ltd., Foshan Nanhai Logan Mingjun Real Estate Co., Ltd., Nanning Logan Mingyu Property Development Co., Ltd., Zhongshan Lianan Property Co., Ltd. and Nanning Logan Mingjun Property Development Co., Ltd. also agreed not to distribute any dividend without the written consent of such PRC banks:

- before the principal amount of and accrued interest on the relevant project loan have been fully paid; or
- before any principal amount of and accrued interest on the relevant project loan due within the period have been fully paid.

OTHER FINANCINGS

Trust Financings

We have obtained, from time to time, secured and unsecured other financings from a number of trust companies in the PRC. The terms of our trust financings range from one to four years, and the interest rates range from 7.0% to 9.25% per annum. As of the date of this offering memorandum, the amount under our trust financings aggregate to RMB1,083.5 million (US\$157.6 million).

Although we have not experienced any difficulty in obtaining bank loans necessary to fund our developments, we also utilize loans from trust companies with a view to diversifying our financing sources, given that loans from trust companies give us more flexibility. We believe this is in line with the industry practice.

In general, the interest rates of our other loans from trust companies are higher than those of our bank loans. In addition, while banks generally do not accept transferred equity interests to secure repayment obligations, trust companies are generally more flexible in accepting different types of security. For instance, in the past, we transferred equity interests in a project subsidiary to the lending trust company to secure our loan with it, which were transferred back to us when we repaid the loan. Our currently effective loans with trust companies do not have such equity transferring feature. Our other loans may include customary covenants, such as allowing lenders' ongoing supervision of our operational and financial conditions, prohibition against using the borrowings for investment purposes, and requirements to notify the lenders in the event of material adverse changes in our operations and financial conditions. In the event of default, we may be required to make immediate repayments of loans, pay a penalty or indemnify the lenders.

PUBLIC CORPORATE BONDS

RMB4.0 billion Public Corporate Bonds

Shenzhen Logan issued a public corporate bond which was listed and traded on Shenzhen Stock Exchange in an aggregate principal amount of RMB4.0 billion (US\$0.6 billion) to qualified investors only in tranches. The first tranche was issued on November 20, 2018 in an aggregate principal amount of RMB2.49 billion (US\$0.4 billion) with a four-year term at a coupon rate of 5.98% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option. The second tranche was issued on March 19, 2019 in an aggregate principal amount of which was RMB1.51 billion (US\$0.2 billion) with a coupon rate of 5.5% per annum due 2024. At the end of the third anniversary from the date of issue, Shenzhen Logan has a right to adjust the coupon rate, and the investors can exercise a retractable option.

RMB5.0 Billion Public Corporate Bonds

Shenzhen Logan issued a public corporate bond which was listed and traded on the Shanghai Stock Exchange in an aggregate principal amount of RMB5.0 billion (US\$0.7 billion) to qualified investors only in tranches. The first tranche was issued on August 19, 2015 in an amount of RMB4.0 billion (US\$0.6 billion) with a five-year term at a coupon rate of 5% per annum. At the end of the third year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option. The second tranche was issued on August 27, 2015 in an amount of RMB1.0 billion (US\$0.2 billion) with a four-year term at a coupon rate of 4.77% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option. On 28 August 2017, Shenzhen Logan had adjusted the coupon rate of second tranche of corporate bonds from 4.77% per annum to 5.35% per annum and the second tranche of corporate bonds with an aggregate principal amount of RMB237,551,000 was sold back to Shenzhen Logan. On August 19, 2018, Shenzhen Logan had adjusted the coupon rate of first tranche of corporate bonds from 5.0% per annum to 7.3% per annum and the first tranche of corporate bonds with an aggregate principal amount of RMB10,000,000 was sold back to Shenzhen Logan.

RMB1.4 billion Public Corporate Bonds

Shenzhen Logan issued a public corporate bond on October 20, 2016 which was listed and traded on the Shenzhen Stock Exchange in an aggregate principal amount of RMB1.4 billion (US\$0.2 billion) to qualified investors only with a five-year term at a coupon rate of 3.4% per annum. At the end of the third year, Shenzhen Logan Holding Co., Ltd. has a right to adjust the coupon rate, and the investors can exercise a retractable option.

PRIVATE CORPORATE BONDS

RMB3.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bonds which was listed and traded on the Shanghai Stock Exchange in an aggregate principal amount of RMB3.0 billion (US\$0.4 billion) to qualified investors only in tranches. The first tranche was issued on January 13, 2016 in an aggregate principal amount of RMB2.5 billion (US\$0.4 billion) with a three-year term at a coupon rate of 5.8% per annum. At the end of second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option. The second tranche was issued on May 16, 2016 in an aggregate principal amount of RMB500.0 million (US\$72.7 million) with a four-year term at a coupon rate of 5.2% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option.

The first tranche with a principal amount of RMB2,490,000,000 is classified as a current liability as of December 31, 2018. In January 2018, the coupon rate of the first tranche is adjusted to 6.88% per annum; the first tranche with a principal amount of RMB10,000,000 were sold back to Shenzhen Logan; and the corporate bonds with a remaining principal amount of RMB2,490,000,000 are due in 2019. On January 13, 2019, the first tranche with a principal amount of RMB2,490,000,000 had become matured and been fully repaid.

In May 2018, the coupon rate of the second tranche was adjusted to 6.99% per annum. The entire principal amount of second tranche is outstanding.

RMB3.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bond only July 25, 2016 which was listed and traded on the Shenzhen Stock Exchange in an aggregate principal amount of RMB3.0 billion (US\$0.4 billion) to qualified investors only in tranches with a five-year term at a coupon rate of 5.15% per annum. At the end of the third year the Company has a right to adjust the coupon rate, and the investor can exercise a retractable option.

RMB2.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bond on February 1, 2018 in an aggregate principal amount of RMB2.0 billion (US\$0.3 billion) to qualified investors only in tranches with a four-year term at a coupon rate of 6.99% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option.

RMB2.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bond on March 22, 2018 in an aggregate principal amount of RMB2.0 billion (US\$0.3 billion) to qualified investors only in tranches with a four-year term at a coupon rate of 7.2% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option.

RMB1.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bond on May 25, 2018 in an aggregate principal amount of RMB1.0 billion (US\$0.1 billion) to qualified investors only in tranches with a four-year term at a coupon rate of 7.3% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option.

RMB1.0 Billion Private Corporate Bonds

Shenzhen Logan issued a private corporate bond on December 7, 2018 in an aggregate principal amount of RMB1.0 billion (US\$0.1 billion) to qualified investors only in tranches with a four-year term at a coupon rate of 7.0% per annum. At the end of the second year, Shenzhen Logan has a right to adjust the coupon rate, and the investor can exercise a retractable option.

JANUARY 2016 NOTES

On January 19, 2016, we entered into an indenture (as amended or supplemented from time to time, the “January 2016 Indenture”). Pursuant to the January 2016 Indenture, we issued an aggregate principal amount of US\$260 million of the January 2016 Notes on January 19, 2016. The January 2016 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the January 2016 Notes is outstanding.

Guarantee

The obligations pursuant to the January 2016 Notes are guaranteed by our existing subsidiaries (the “January 2016 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the January 2016 Indenture. Each of the January 2016 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the January 2016 Notes.

Interest

The January 2016 Notes bear interests at 7.70% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the January 2016 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The January 2016 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the January 2016 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the January 2016 Indenture or the holders of at least 25% of the outstanding January 2016 Notes may declare the principal of the January 2016 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 January 2016 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the January 2016 Notes is January 19, 2020.

At any time and from time to time on or after January 19, 2019, we may redeem the January 2016 Notes, in whole or in part, at a redemption price equal to the 103% of principal amount of the January 2016 Notes set forth in the table below plus any accrued and unpaid interest to (but not including) the redemption date.

Additionally, if we or a subsidiary guarantor under the January 2016 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the January 2016 Notes at a redemption price equal to 100% of the principal amount of the January 2016 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

JANUARY 2017 NOTES

On January 3, 2017, we entered into an indenture (as amended or supplemented from time to time, the “January 2017 Indenture”). Pursuant to the January 2017 Indenture, we issued an aggregate principal amount of US\$200 million of the January 2017 Notes on January 3, 2017 and issued an additional aggregate principal amount of US\$50 million of the January 2017 Notes on January 9, 2019. The January 2017 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the January 2017 Notes is outstanding.

Guarantee

The obligations pursuant to the January 2017 Notes are guaranteed by our existing subsidiaries (the “January 2017 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the January 2017 Indenture. Each of the January 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the January 2017 Notes.

Interest

The January 2017 Notes bear interests at 5.75% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the January 2017 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;

- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The January 2017 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the January 2017 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the January 2017 Indenture or the holders of at least 25% of the outstanding January 2017 Notes may declare the principal of the January 2017 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 January 2017 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the January 2017 Notes is January 3, 2022.

At any time and from time to time on or after January 3, 2020, we may redeem the January 2017 Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount of the January 2017 Notes set forth in the table below plus any accrued and unpaid interest to (but not including) the redemption date.

Period	Redemption Price
2020	102.8750%
2021 and thereafter	101.4375%

At any time and from time to time prior to January 3, 2020, the Company may at its option redeem the January 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the January 2017 Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

Additionally, if we or a subsidiary guarantor under the January 2017 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the January 2017 Notes at a redemption price equal to 100% of the principal amount of the January 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

MAY 2017 NOTES

On May 23, 2017, we entered into an indenture (as amended or supplemented from time to time, the "May 2017 Indenture"). Pursuant to the May 2017 Indenture, we issued an aggregate principal amount of US\$450 million of the May 2017 Notes on May 23, 2017. The May 2017 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the May 2017 Notes is outstanding.

Guarantee

The obligations pursuant to the May 2017 Notes are guaranteed by our existing subsidiaries (the “May 2017 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the May 2017 Indenture. Each of the May 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the May 2017 Notes.

Interest

The May 2017 Notes bear interests at 5.25% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the May 2017 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The May 2017 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the May 2017 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the May 2017 Indenture or the holders of at least 25% of the outstanding May 2017 Notes may declare the principal of the May 2017 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 May 2017 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the May 2017 Notes is February 23, 2023.

At any time and from time to time on or after May 23, 2020, we may redeem the May 2017 Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount of the May 2017 Notes set forth in the table below plus any accrued and unpaid interest to (but not including) the redemption date.

Period	Redemption Price
2020	102.6250%
2021 and thereafter	101.3125%

At any time and from time to time prior to May 23, 2020, the Company may at its option redeem the May 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the May 2017 Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to May 23, 2020, the Company may redeem up to 35% of the aggregate principal amount of the May 2017 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 105.25% of the principal amount of the May 2017 Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Additionally, if we or a subsidiary guarantor under the May 2017 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the May 2017 Notes at a redemption price equal to 100% of the principal amount of the May 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

MARCH 2018 NOTES

On March 7, 2018, we entered into an indenture (as amended or supplemented from time to time, the “March 2018 Indenture”). Pursuant to the March 2018 Indenture, we issued an aggregate principal amount of US\$250 million of the March 2018 Notes on March 7, 2018. The March 2018 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the March 2018 Notes is outstanding.

Guarantee

The obligations pursuant to the March 2018 Notes are guaranteed by our existing subsidiaries (the “March 2018 Subsidiary Guarantors”) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the March 2018 Indenture. Each of the March 2018 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the March 2018 Notes.

Interest

The March 2018 Notes bear interests at 6.375% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the March 2018 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The March 2018 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the March 2018 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the March 2018 Indenture or the holders of at least 25% of the outstanding March 2018 Notes may declare the principal of the March 2018 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 March 2018 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the March 2018 Notes is March 7, 2021.

At any time and from time to time prior to March 7, 2020, we may at its option redeem the March 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the March 2018 Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to March 7, 2020, we may redeem up to 35% of the aggregate principal amount of the March 2018 Notes with the net cash proceeds of one or more sales of Common Stock at a redemption price of 106.375% of the principal amount of the March 2018 Notes redeemed, plus accrued and unpaid interest (if any) to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the March 2018 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On or after March 7, 2020, we may on any one or more occasions redeem all or any part of the March 2018 Notes, at a redemption price of 103.1875% plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the redemption date.

We will give not less than 30 days' nor more than 60 days' notice of any redemption.

APRIL 2018 S\$ NOTES

On April 16, 2018, we entered into an indenture (as amended or supplemented from time to time, the "April 2018 S\$ Indenture"). Pursuant to the April 2018 S\$ Indenture, we issued an aggregate principal amount of S\$200 million of the April 2018 S\$ Notes on April 16, 2018. The April 2018 S\$ Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the April 2018 S\$ Notes is outstanding.

Guarantee

The obligations pursuant to the April 2018 Notes are guaranteed by our existing subsidiaries (the "April 2018 S\$ Subsidiary Guarantors") other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the April 2018 S\$ Indenture. Each of the April 2018 S\$ Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the April 2018 S\$ Notes.

Interest

The April 2018 S\$ Notes bear interests at 6.125% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the April 2018 S\$ Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The April 2018 S\$ Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the April 2018 S\$ Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the April 2018 S\$ Indenture or the holders of at least 25% of the outstanding April 2018 S\$ Notes may declare the principal of the April 2018 S\$ Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 April 2018 S\$ Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the April 2018 S\$ Notes is April 16, 2021.

At any time and from time to time prior to April 16, 2020, we may at its option redeem the April 2018 S\$ Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the April 2018 S\$ Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to April 16, 2020, we may redeem up to 35% of the aggregate principal amount of the April 2018 S\$ Notes with the net cash proceeds of one or more sales of Common Stock at a redemption price of 106.125% of the principal amount of the April 2018 Notes redeemed, plus accrued and unpaid interest (if any) to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the April 2018 S\$ Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On or after April 16, 2020, we may on any one or more occasions redeem all or any part of the April 2018 S\$ Notes, at a redemption price of 103.0625% plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the redemption date.

APRIL 2018 US\$ NOTES

On April 24, 2018, we entered into an indenture (as amended or supplemented from time to time, the "April 2018 US\$ Indenture"). Pursuant to the April 2018 US\$ Indenture, we issued an aggregate principal amount of US\$300 million of the April 2018 US\$ Notes on April 24, 2018 and issued an additional aggregate principal amount of US\$100 million of the April 2018 US\$ Notes on May 30, 2018. The April 2018 US\$ Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the April 2018 US\$ Notes is outstanding.

The obligations pursuant to the April 2018 US\$ Notes are guaranteed by our existing subsidiaries (the "April 2018 US\$ Subsidiary Guarantors") other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the April 2018 US\$ Indenture. Each of the April 2018 US\$ Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the April 2018 US\$ Notes.

Interest

The April 2018 US\$ Notes bear interests at 6.875% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the April 2018 US\$ Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of default

The April 2018 US\$ Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the April 2018 US\$ Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the April 2018 US\$ Indenture or the holders of at least 25% of the outstanding April 2018 US\$ Notes may declare the principal of the April 2018 US\$ Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 April 2018 US\$ Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the April 2018 US\$ Notes is April 24, 2021.

At any time and from time to time prior to April 24, 2020, we may at our option redeem the April 2018 US\$ Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the April 2018 US\$ Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to April 24, 2020, we may redeem up to 35% of the aggregate principal amount of the April 2018 US\$ Notes with the net cash proceeds of one or more sales of Common Stock at a redemption price of 106.875% of the principal amount of the April 2018 US\$ Notes redeemed, plus accrued and unpaid interest (if any) to (but not including) the redemption

date; provided that at least 65% of the aggregate principal amount of the April 2018 US\$ Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On or after April 24, 2020, we may on any one or more occasions redeem all or any part of the April 2018 US\$ Notes, at a redemption price of 102% plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the redemption date.

We will give not less than 30 days' nor more than 60 days' notice of any redemption.

AUGUST 2018 NOTES

On August 27, 2018, we entered into an indenture (as amended or supplemented from time to time, the "August 2018 Indenture"). Pursuant to the August 2018 Indenture, we issued an aggregate principal amount of US\$300 million of August 2018 Notes on August 27, 2018. The August 2018 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the August 2018 Notes is outstanding.

Guarantee

The obligations pursuant to the August 2018 Notes are guaranteed by our existing subsidiaries (the "August 2018 Subsidiary Guarantors") other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the August 2018 Indenture. Each of the August 2018 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, premium, if any, interest, and all other amounts payable under, the August 2018 Notes.

Interest

The August 2018 Notes bear interests at 7.5% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the August 2018 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The August 2018 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the August 2018 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the August 2018 Indenture or the holders of at least 25% of the outstanding August 2018 Notes may declare the principal of the August 2018 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 August 2018 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 August 2018 Notes is August 27, 2021.

At any time and from time to time prior to August 27, 2020, we may at our option redeem the August 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the August 2018 Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to August 27, 2020, we may redeem up to 35% of the aggregate principal amount of the August 2018 Notes with the net cash proceeds of one or more sales of Common Stock at a redemption price of 107.5% of the principal amount of the August 2018 Notes redeemed, plus accrued and unpaid interest (if any) to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the August 2018 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On or after August 27, 2020, we may on any one or more occasions redeem all or any part of the August 2018 Notes, at a redemption price of 102% plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the redemption date.

We will give not less than 30 days' nor more than 60 days' notice of any redemption.

DECEMBER 12 2018 NOTES

On December 12, 2018, we entered into an indenture (as amended or supplemented from time to time, the "December 12 2018 Indenture"). Pursuant to the December 12 2018 Indenture, we issued an aggregate principal amount of US\$370 million of December 12 2018 Notes on December 12, 2018. The December 12 2018 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the December 12 2018 Notes is outstanding.

Guarantee

The obligations pursuant to the December 12 2018 Notes are guaranteed by our existing subsidiaries (the "December 12 2018 Subsidiary Guarantors") other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the December 12 2018 Indenture. Each of the December 12 2018 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, premium, if any, interest, and all other amounts payable under, the December 12 2018 Notes.

Interest

The December 12 2018 Notes bear interests at 8.75% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the December 12 2018 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The December 12 2018 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the December 12 2018 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the December 12 2018 Indenture or the holders of at least 25% of the outstanding December 12 2018 Notes may declare the principal of the December 12 2018 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

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 December 12 2018 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 December 12 2018 Notes is December 12, 2020.

At any time and from time to time prior to December 12, 2020, we may at our option redeem the December 12 2018 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the December 12 2018 Notes plus the applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to December 12, 2020, we may redeem up to 35% of the aggregate principal amount of the December 12 2018 Notes with the net cash proceeds of one or more sales of Common Stock at a redemption price of 108.75% of the principal amount of the December 12 2018 Notes redeemed, plus accrued and unpaid interest (if any) to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the December 12 2018 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

We will give not less than 30 days' nor more than 60 days' notice of any redemption.

FEBRUARY 2019 NOTES

On February 25, 2019, we entered into an indenture (as amended or supplemented from time to time, the "February 2019 Indenture"). Pursuant to the February 2019 Indenture, we issued an aggregate principal amount of US\$300 million of the February 2019 Indenture on February 25, 2019. The February 2019 Notes are unsecured. As of the date of this offering memorandum, the entire principal amount of the February 2019 Notes is outstanding.

Guarantee

The obligations pursuant to the February 2019 Notes are guaranteed by our existing subsidiaries (the "February 2019 Subsidiary Guarantors") other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the February 2019 Indenture. Each of the February 2019 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, premium, if any, interest, and all other amounts payable under, the February 2019 Notes.

Interest

The February 2019 Notes bear interests at 7.5% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the February 2019 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and

- effecting a consolidation or merger.

Events of Default

The February 2019 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the February 2019 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the February 2019 Indenture or the holders of at least 25% of the outstanding February 2019 Notes may declare the principal of the February 2019 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding February 2019 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 February 2019 Notes is August 25, 2022.

At any time and from time to time prior to February 25, 2021, we may at our option redeem the February 2019 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the February 2019 Notes plus applicable premium as of, and accrued and unpaid interest (if any) to (but not including), the redemption date.

At any time and from time to time prior to February 25, 2021, we may redeem up to 35% of the aggregate principal amount of the February 2019 Notes with the net cash proceeds of one or more sales of our common stock in an equity offering at a redemption price of 107.5% of the principal amount of the February 2019 Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the February 2019 Notes remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On or after the February 25, 2021, we may on any one or more occasions redeem all or any part of the February 2019 Notes, at a redemption price of 102% plus accrued and unpaid interest, if any, on the February 2019 Notes redeemed, to (but not including) the redemption date.

We will give not less than 30 days' nor more than 60 days' notice of any redemption.

OFFSHORE LOAN FACILITY AGREEMENTS

We, as borrower, have entered into other facility agreements with offshore banks and financial institutions, including, without limitation, Hang Seng Bank Limited, Industrial Bank Co., Ltd., Credit Suisse AG, Industrial and Commercial Bank of China (Asia) Limited, China Minsheng Banking Corp., Ltd., Luso International Banking Ltd., Dah Sing Bank, BEA Bank, United Overseas Bank Limited, DBS Bank Ltd., Oversea-Chinese Banking Corporation Limited, Hong Leong Finance Limited, Malayan Banking Berhad, Singapore Branch, and Chiyu Banking Corporation Ltd. As of the date of this offering memorandum, we have an aggregate outstanding principal amount of HK\$3,848.3 million, US\$105.0 million and SG\$735.8 million, respectively, under these offshore loan facility agreements.

Our offshore facilities typically have terms ranging from approximately one month from drawdown to sixty months after the first utilization date or the facility agreement date.

Guarantee and security

The obligations pursuant to these offshore loan facility agreements are unsecured or secured by a mortgage, assignment of insurance, assignment of proceeds, assignment of project documents, bank deposits, standby letter of credit, or guaranteed by us.

Interest

The principal amounts outstanding under these loans generally bear interest at floating rates calculated with reference to Singapore Interbank Offered Rate or Hong Kong Interbank Offered Rate.

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 borrowings, consolidated EBITDA and dividend payout ratio.

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.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Logan Property Holdings Company Limited, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which Guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such Guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined below) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of July 16, 2019, among the Company, the Subsidiary Guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of the material provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete, and is subject to, and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available for inspection on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

BRIEF DESCRIPTION OF THE NOTES

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any, on a senior basis, subject to the limitations described below under the caption “—The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees”;
- effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below) (including, without limitation, the Existing Notes (other than the February 2019 Notes) and other Indebtedness Guaranteed by Designated Non-Guarantors).

See “Risk Factors — Risks relating to the Notes — Our payment obligations under the Notes will be subordinated to all existing and future obligations of the Designated Non-Guarantors, including, without limitation, the Existing Notes (other than the February 2019 Notes).”

The Notes will mature on July 16, 2023, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 6.5% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly *provided* for, payable semiannually in arrears on January 16 and July 16 of each year (each an “Interest Payment Date”), commencing January 16, 2020. Interest on the Notes will be paid to Holders of record at the close of business on January 1 or July 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. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months. So long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1.

Except as described under “Optional Redemption,” “Redemption for Taxation Reasons” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “—Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by wire transfer in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the specified office of the Paying Agent currently located at Citibank, N.A., London Branch, 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; *provided* that, if the Notes are in definitive form and the Company is acting as its own paying agent, payment of interest may be made by wire transfer or by a check mailed to the address of the Holders as such address appears in the Note register maintained by the Registrar. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC (the “PRC Non-Guarantor Subsidiaries”) and Initial Other Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors are holding companies that do not have significant operations. The initial Subsidiary Guarantors will be Yuen Ming Investments Company Limited, Yuen Ming (Hong Kong) Investments Company Limited, Noble Rhythm International Limited, Kam Wang (Hong Kong) Investments Company Limited, Jolly Gain Investments Limited, King

Kerry (Hong Kong) Investments Company Limited, King Kerry Investments Company Limited, Pak San Bay Investments Company Limited, Pak San Bay (Hong Kong) Investments Company Limited, Talent Union (Hong Kong) Investments Limited, Talent Union Investments Limited, Great Paramount Capital Limited and Great Paramount Capital (Hong Kong) Limited. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

None of the PRC Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. Other than the initial Subsidiary Guarantors, none of the Company's other Restricted Subsidiaries organized outside the PRC as of the Original Issue Date (the "Initial Other Non-Guarantor Subsidiaries") will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date. None of the Exempted Subsidiaries and the Listed Subsidiaries (as long as they continue to be Exempted Subsidiaries and Listed Subsidiaries) will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an entity and designate such entity as a Restricted Subsidiary, the Company may, concurrently with or after the consummation of such sale or purchase, provide a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than (in the case of a sale or issuance) or no more than (in the case of a purchase) the Fair Market Value of such Capital Stock; and
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed Guarantee of such JV Subsidiary Guarantor (the "JV Subsidiary Guarantee") and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will

guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;

- (ii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
- (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of December 31, 2018, the Company and its consolidated subsidiaries had total debt of approximately RMB58,941.2 million (US\$8,572.6 million), of which the secured debt of the Company or a Subsidiary Guarantor was nil.

As of December 31, 2018, the Non-Guarantor Subsidiaries had total liabilities, contracted capital commitments, and contingent liabilities of RMB124,611.0 million, RMB14,410.3 million and RMB23,975.5 million, respectively.

The Subsidiary Guarantee of each Subsidiary Guarantor:

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

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

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

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

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC, Exempted Subsidiaries and Listed Subsidiaries), as soon as practicable (and in any event within 30 days) after such Person becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have (i) any future Restricted Subsidiary organized outside the PRC or (ii) any Restricted Subsidiary that has ceased to be an Exempted Subsidiary or a Listed Subsidiary, in each case not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (such Restricted Subsidiaries other than those PRC Restricted Subsidiaries, Exempted Subsidiaries and Listed Subsidiaries, the “New Non-Guarantor Subsidiaries,” and together with the Initial Other Non-Guarantor Subsidiaries, the “Other Non-Guarantor Subsidiaries”) at the time such entity becomes a Restricted Subsidiary or has ceased to be an Exempted Subsidiary or a Listed Subsidiary, as the case may be; *provided* that, after giving effect to the consolidated assets of such New Non-Guarantor Subsidiaries, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor (other than Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 30% of the Total Assets of the Company. In addition, the Company may release any Subsidiary Guarantor or JV Subsidiary Guarantor by designating such Subsidiary Guarantor or JV Subsidiary Guarantor as a New Non-Guarantor Subsidiary, *provided* that, after giving effect to the consolidated assets of such New Non-Guarantor Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor (other than Exempted Subsidiaries and Listing Subsidiaries) do not account for more than 30% of the Total Assets of the Company. The Trustee shall effect and evidence such designation and release if the conditions precedent to such designation and release as set forth in the preceding sentence have been complied with, as evidenced by an Officers’ Certificate from the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.” The Other Non-Guarantor Subsidiaries, together with the PRC Non-Guarantor Subsidiaries, are referred to herein as the “Non-Guarantor Subsidiaries.”

Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that, any JV Subsidiary Guarantee, together with all the JV Subsidiary Guarantees *provided* by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the

JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be repaid or restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will, together with all the JV Subsidiary Guarantees provided by the Subsidiaries and shareholders of such JV Subsidiary Guarantor, in the aggregate, be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other Indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such Indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor's liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors—Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees—The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees."

Release of the Subsidiary Guarantees or JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "—Defeasance—Defeasance and Discharge";
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, merger or disposition of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions "—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "—Certain Covenants—Limitation on Asset Sales" and "—Consolidation, Merger and Sale of Assets")

resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, merger or disposition are used for the purposes permitted or required by the Indenture;

- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing a JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale has been made to an Independent Third Party at a consideration that is not less than the Fair Market Value of such Capital Stock; and
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will Guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the “Limitation on Asset Sales” and “Limitation on Restricted Payments” covenants.

Any Net Cash Proceeds from the sale or issuance of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the “Limitation on Asset Sales” covenant.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” Under the circumstances described below under the caption “—Certain Covenants— Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

FURTHER ISSUES

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and the JV Subsidiary Guarantees, if any) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock” covenant described below.

OPTIONAL REDEMPTION

At any time and from time to time on or after July 16, 2021, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the six-month period beginning on January 16 and July 16, commencing on July 16, 2021, in each case as indicated below.

<u>Six-month period</u>	<u>Redemption Price</u>
July 16, 2021	102.0%
January 16, 2022	102.0%
July 16, 2022	101.0%
January 16, 2023 and thereafter	100.0%

At any time prior to July 16, 2021, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. Neither the Trustee nor the Paying Agent is responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to July 16, 2021, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not

including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any national securities exchange and/or are held through a clearing system, in compliance with the requirements of the principal national securities exchange on which the Notes are listed (if any) and/or the requirements of the clearing system; or
- (2) if the Notes are not listed on any national securities exchange and/or held through a clearing system, on a pro rata basis, by lot or by such method as the Trustee in its sole and absolute discretion deems fair and appropriate unless otherwise required by law.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

REPURCHASE OF NOTES UPON A CHANGE OF CONTROL TRIGGERING EVENT

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's and the Subsidiary Guarantors' then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors—Risks Relating to the Notes—We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The phrase “all or substantially all”, as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

NO MANDATORY REDEMPTION OR SINKING FUND

There will be no mandatory redemption or sinking fund payments for the Notes.

ADDITIONAL AMOUNTS

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “—Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “Relevant Jurisdiction”), or the jurisdiction through which payments are made or any political subdivision or taxing authority thereof or therein (each, together with a Relevant Jurisdiction, a “Taxing Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Taxing Jurisdiction, other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Taxing Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

- (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, any Subsidiary Guarantor or any JV Subsidiary Guarantor, addressed to the Holder, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Taxing Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Taxing Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing an intergovernmental agreement with respect to FATCA or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Taxing Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

REDEMPTION FOR TAXATION REASONS

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (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 Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (or in the case of an official position, is announced) (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Company or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company 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 is entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

CERTAIN COVENANTS

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0.

Notwithstanding the foregoing, the Company will not permit any Non-Guarantor Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
- (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) Any *Pari Passu* Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor and any Designated Guarantees;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d) (together with refinancings thereof); *provided* that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness excluded in the proviso contained in the definition of Permitted Subsidiary Indebtedness);
 - (d) Indebtedness of the Company or Indebtedness or Preferred Stock of any Restricted Subsidiary owed to or held by the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness and none of the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and none of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be; *provided further* that, any Preferred Stock issued by a Subsidiary Guarantor or JV Subsidiary Guarantor and held by the Company or another Restricted Subsidiary must by the terms thereof or by operation of law be subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (n), (p), (q), (r), (s), (t), (u) or (v) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, as the case may be, such new Indebtedness, by its terms or by the terms of any agreement or instrument

pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, as the case may be, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, (iii) in no event may Indebtedness of the Company, or any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (*provided* that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (p), (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided* that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the "Limitation on Issuances of Guarantees by Restricted Subsidiaries" covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding (together with refinancings thereof) does not exceed US\$50.0 million (or the Dollar Equivalent thereof);
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Indebtedness Incurred or Preferred Stock or Disqualified Stock issued by any Restricted Subsidiary arising from any Investment made by a Financial Company Investor in a Restricted Subsidiary, and Indebtedness of the Company or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a Restricted Subsidiary in favor of a Financial Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Financial Company Investor on Capital Stock of a Restricted Subsidiary held

by such Financial Company Investor, *provided* that on the date of such Incurrence of all such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock Incurred under this clause (p) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clause (h) above and clauses (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (p) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35% of Total Assets;

- (q) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (q) (together with refinancings thereof) does not exceed an amount equal to 20% of Total Assets;
- (r) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$30.0 million (or the Dollar Equivalent thereof);
- (s) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate of all Indebtedness Incurred under this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h) and (p) above and clauses (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;
- (t) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (t) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h), (p) and (s) above and clauses (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;
- (u) Indebtedness Incurred by the Company or any Restricted Subsidiary which is secured by Investment Properties and Guarantees thereof by the Company or any such Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (s), and (t) above and clause (v) below and the refinancings thereof, but excluding any Contractor

Guarantee or Guarantee Incurred under such clauses and this clause (u) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets; and

- (v) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (s), (t) and (u) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.
- (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary other than (i) the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or (ii) the purchase of Capital Stock of a Restricted Subsidiary held by any Financial Company Investor;

- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal semi-annual period during which the Measurement Date occurred and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
 - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
 - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
 - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company

or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (E) any Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of "Permitted Investment") but only to the extent such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c); plus

(v) US\$30.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided* however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided* however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);

- (5) the declaration and payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary; *provided* that, with respect to a Restricted Subsidiary of which less than a majority of the Voting Stock is directly or indirectly owned by the Company, such dividend or distribution shall be declared, paid or made on a pro rata basis or on a basis more favorable to the Company, as determined by the ownership of the Voting Stock;
- (6) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by, any Financial Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(p) of the “Limitation on Indebtedness and Preferred Stock” covenant;
- (7) the declaration and payment of dividends on the Common Stock of the Company by the Company in an aggregate amount not to exceed HK\$560 million for the fiscal year ended December 31, 2013;
- (8) the declaration and payment of any dividends on, and repurchase of, the Common Stock of the Company by the Company up to an aggregate amount in any fiscal year not to exceed 20% of the profit for the year of the Company in the immediately prior fiscal year; *provided* that the conditions of clauses (4)(a) and (4)(c) of the first paragraph of this “Limitation on Restricted Payments” would not be violated as a consequence of such declaration and payment of dividends;
- (9) the redemption, repurchase or other acquisition of Capital Stock of any Restricted Subsidiary holding any real estate project; *provided* that not less than 70% of the aggregate gross planned floor area of the real estate projects held by such Restricted Subsidiary has been sold or pre-sold;
- (10) (A) the repurchase, redemption or other acquisition or retirement for value of the Capital Stock of the Company or any Restricted Subsidiary (directly or indirectly, including through any trustee, agent or nominee) in connection with the Company’s employee benefit plan, and any corresponding Investment by the Company or any Restricted Subsidiary in any trust or similar arrangements to the extent of such repurchased, redeemed, acquired or retired Capital Stock, or (B) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate consideration paid for all such repurchased, redeemed, acquired or retired Capital Stock pursuant to this clause (10) shall not exceed US\$15 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (11) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, *provided*, however, that any such cash payment shall not be for the purpose of evading the limitation of this “—Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (12) 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 or among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, *provided* that (x) such purchase occurs within 24 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire and (y) the Company delivers to the

Trustee a Board Resolution set forth in an Officers' Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock; or

- (13) payments, including distributions, made under or in connection with any Perpetual Bond Obligation pursuant to the terms thereof or in connection with a repurchase or redemption thereof,

provided that, in the case of clause (2), (3), (4) or (8) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment made pursuant to clause (1) of the preceding paragraph made after the Measurement Date shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “—Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (13) above), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “—Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

For purposes of determining compliance with this “—Limitation on Restricted Payments” covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this “—Limitation on Restricted Payments” covenant and paragraph (17) of the definition of “Permitted Investment” at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of such paragraphs.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
- (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, or under any *Pari Passu* Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, any Designated Guarantee or any Indebtedness Guaranteed by any such *Pari Passu* Subsidiary Guarantee or Designated Guarantee, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of the property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
 - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Limitation on Indebtedness and Preferred Stock” and “—Limitation on Asset Sales” covenants;
 - (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock or Disqualified Stock of the type described under clause (2)(h), (2)(o), (2)(p), (2)(q), (2)(s), (2)(t), (2)(u) or (2)(v) or permitted under clause (2)(n) or (2)(r) of the “—Limitation on Indebtedness and Preferred Stock” covenant if the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced; *provided further* that, the Board

of Directors is empowered to determine as to whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution;

- (g) existing in customary provisions in shareholders agreement, joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; *provided* further that, the Board of Directors is empowered to determine as to whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the sale or issuance of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such sale or issuance, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such sale or issuance and *provided* that the Company complies with the "—Limitation on Asset Sales" covenant, *provided further* that, paragraph (v) of clause (17) of the definition of "Permitted Investment" shall not apply if such Investment would otherwise have been permitted under clause (17) of such definition; or
- (4) the sale or issuance of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such sale or issuance); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such sale or issuance in accordance with the "—Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1)(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full, (2) such Guarantee is permitted by clauses (2)(c), (2)(d) or (2)(q) (in the case of clause (2)(q), with respect to the Guarantee *provided* by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts or bank deposits to secure (or the use of any Guarantee or letter of credit or similar instruments to Guarantee) any Bank Deposit Secured Indebtedness) under the caption “—Limitation on Indebtedness and Preferred Stock,” or (3) such Guarantee is a Designated Guarantee.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm’s length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted

Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation for the service as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1) or (2) of the first paragraph of the covenant described above under the caption “—Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of the Hong Kong Stock Exchange, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or a Minority Staged Acquisition Agreement, and any purchase of Capital Stock of a Restricted Subsidiary held by a Financial Company Investor so long as each such purchase is in compliance with the listing rules of the Hong Kong Stock Exchange;
- (7) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (9) of the second paragraph of the covenant entitled “—Limitation on Restricted Payments”;
- (8) any transaction between or among (A) the Company or any Restricted Subsidiary and (B) Logan Construction Co., Ltd. or any of its Subsidiaries so long as such transaction is in compliance with the listing rules of the Hong Kong Stock Exchange;
- (9) the acquisition by the Company or any Restricted Subsidiary from Mr. Yao Yaojia and/or his affiliates of any interest in King Kerry Investments Company Limited so long as such acquisition is in compliance with the listing rules of the Hong Kong Stock Exchange;
- (10) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Qualified Spin-off Group entered into in connection with the Qualified Spin-off IPO, including, without limitation, transactions entered into for purposes of any reorganization in connection with the Qualified Spin-off IPO and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the Qualified Spin-off IPO; and
- (11) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Qualified Spin-off Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the Qualified Spin-off IPO, or any amendment, modification, extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the Qualified Spin-off IPO and in compliance with the rules of the relevant Qualified Exchange.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (including Permitted Investments that are permitted under paragraph (17) of the definition of “Permitted Investments” but otherwise excluding any other Permitted Investments) not prohibited by the “—Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one hand and any Minority Joint Venture or Unrestricted Subsidiary on the other; *provided* that in the case of clause (iii) (a) such transaction is entered into in the ordinary course of business, (b) in the case of a transaction with a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary or by reason of being a Subsidiary or Minority Joint Venture of the Company) and (c) in the case of a transaction with a Minority Joint Venture or an Unrestricted Subsidiary, none of the shareholders or partners (other than the Company or a Restricted Subsidiary) of such Minority Joint Venture or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being a director or officer of such Minority Joint Venture or Unrestricted Subsidiary or by reason of being a Subsidiary or Minority Joint Venture of the Company).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on any Capital Stock of a Subsidiary Guarantor or a JV Subsidiary Guarantor (other than a Permitted Lien specified in clause (1) of the definition of “Permitted Liens”), unless the Notes are equally and ratably secured by such Lien.

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “—Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “—Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “—Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$15.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets (other than current assets that are not land use rights, properties under development or completed property held for sale) that will be used in a Permitted Business (“Replacement Assets”).

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute “Excess Proceeds.” Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and

accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount of the Notes plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis by lot or such other method the Trustee determines in its sole and absolute discretion. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption “—Limitation on Restricted Payments.”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changing market conditions as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support (other than any Guarantee in compliance with clause (6) below) for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “—Limitation on Liens;” (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently

designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “—Limitation on Restricted Payments” (other than any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Qualified Spin-off Group upon the designation of the Subsidiaries in the Qualified Spin-off Group as Unrestricted Subsidiaries in connection with the Qualified Spin-off IPO, *provided* that (A) the Board of Directors has determined in good faith that the designation of such Subsidiaries as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for the Qualified Spin-off IPO, (B) at the time of such designation, such Subsidiaries remain Subsidiaries of the Company, and (C) at the time of such designation, such Subsidiaries remain primarily engaged in the Non-Core Business).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “—Limitation on Indebtedness and Preferred Stock;” (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “—Limitation on Liens;” (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor to the extent required under “—The Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor (if any) to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either Rating Agency, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (2) “—Certain Covenants—Limitation on Restricted Payments”;
- (3) “—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “—Certain Covenants—Limitation on the Company’s Business Activities”;
- (7) “—Certain Covenants—Limitation on Sale and Leaseback Transactions”; and
- (8) “—Certain Covenants—Limitation on Asset Sales”.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “—Certain Covenants—Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with the Hong Kong Stock Exchange or any other recognized exchange on which the Company’s ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:

- (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis and in English language) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis and in English language) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis and in English language), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the most recent fiscal year and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy of the calculation and arithmetic computation; *provided* that, the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

EVENTS OF DEFAULT

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under "—Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "—Repurchase of Notes upon a Change of Control Triggering Event" or "—Limitation on Asset Sales";

- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$15.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$15.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Restricted Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any 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 Restricted Subsidiary in the ordinary course of business that shall result in the net assets of such 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) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders shall, subject to receiving indemnity and/or security to its satisfaction, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and

unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may 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 the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that is unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action that is not inconsistent with any such direction received from Holders. The Trustee shall not be required to expend its funds in following such direction if it does not reasonably believe that reimbursement or indemnity and/or security is assured to it.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such written request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the written request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

If the Trustee collects any money pursuant to the Indenture, it shall pay out the money in the following order:

First, to the Trustee and the Agents to the extent necessary to reimburse the Trustee for any expenses incurred in connection with the collection or distribution of such amounts held or realized and fees and expenses of the Trustee and the Agents properly incurred in connection with carrying out its functions under the Indenture (including reasonable legal fees and expenses and indemnity payments);

Second, to the Trustee for the benefit of Holders; and

Third, any surplus remaining after such payments will be paid to the Company or to whomever may be lawfully entitled thereto.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and the Subsidiary Guarantors' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "—Provision of Financial Statements and Reports."

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture 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 the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “—Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which such Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture 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 shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”;

- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent *provided* for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “—Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “—The Subsidiary Guarantees—Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor that may adversely affect Holders.

NO PAYMENTS FOR CONSENTS

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

DEFEASANCE

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or any combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect

that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;

- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes the Subsidiary Guarantees and JV Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that (i) the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “—Consolidation, Merger and Sale of Assets” and all the covenants described herein under “—Certain Covenants,” other than as described under “—Certain Covenants—Government Approvals and Licenses; Compliance with Law” and “—Certain Covenants—Anti-Layering,” and (ii) clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in clause (i) above, clause (4) under “Events of Default” with respect to such other covenants in clause (i) above and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

AMENDMENTS AND WAIVER

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (2) comply with the provisions described under “—Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or any JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (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 or any applicable securities depository or clearing systems;
- (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, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in aggregate principal amount of the outstanding Notes or the Trustee may amend or waive future compliance by the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency or time of payment of principal of, or premium, if any, or interest on, any Note;

- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) 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;
- (9) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (10) 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 “—Limitation on Asset Sales”;
- (11) change the redemption date or the redemption price of the Notes from that stated under the caption “—Optional Redemption” or “—Redemption for Taxation Reasons”;
- (12) amend, change or modify the obligation of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

UNCLAIMED MONEY

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

NO PERSONAL LIABILITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS, DIRECTORS OR EMPLOYEES

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The

waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

CONCERNING THE TRUSTEE AND THE AGENTS

Citicorp International Limited has been appointed as Trustee under the Indenture. Citibank, N.A., London Branch has been appointed as registrar (the “Registrar”), transfer agent (the “Transfer Agent”) and paying agent (the “Paying Agent” and together with the Registrar and Transfer Agent, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

The Trustee will not be under any obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders, unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense.

Furthermore, each Holder, 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 Notes will be represented by a global note in registered form without interest coupons attached (the “Initial Global Note”). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Initial Global Note, the “Global Notes”).

GLOBAL NOTES

Ownership of beneficial interests in the Global Notes (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “—Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of the Agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

PAYMENTS ON THE GLOBAL NOTES

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “—Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of the Agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

REDEMPTION OF GLOBAL NOTES

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants’ accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

ACTION BY OWNERS OF BOOK-ENTRY INTERESTS

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

TRANSFERS

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions".

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also

available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee or any of the Agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

INDIVIDUAL DEFINITIVE NOTES

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “—Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Trustee for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

NOTICES

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor, (if intended for the Trustee) at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

CONSENT TO JURISDICTION; SERVICE OF PROCESS

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint COGENCY GLOBAL INC. (formerly known as “National Corporate Research, Ltd.”) for receipt of service of process in any such suit, action or proceeding.

GOVERNING LAW

Each of the Notes and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

DEFINITIONS

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after July 16, 2021, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note on July 16, 2021 (such redemption price

being set forth in the table appearing above under the caption “—Optional Redemption”), plus (y) all required remaining scheduled interest payments due on such Note through July 16, 2021 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“April 2018 S\$ Notes” means the 6.125% Senior Notes due 2021 issued by the Company on April 16, 2018.

“April 2018 US\$ Notes” means the 6.875% Senior Notes due 2021 issued by the Company on April 24, 2018.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “—Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “-Consolidation, Merger and Sale of Assets”;
- (7) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary; and

- (8) sales, transfers or other dispositions by the Qualified Spin-off Group of up to 30% of the Capital Stock of the Qualified Spin-off Group if (i) such Capital Stock is issued following the designation of the Qualified Spin-off Group as an Unrestricted Subsidiary and (ii) such sale, transfer or disposition is made in connection with a Qualified IPO of the Qualified Spin-off Group.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“August 2018 Notes” means the 7.5% Senior Notes due 2021 issued by the Company on August 27, 2018.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is (i) secured by a pledge of one or more bank accounts or deposits of the Company or a Restricted Subsidiary or (ii) guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchanges of U.S. dollars, Hong Kong dollars or other foreign currencies into Renminbi or vice versa or to remit Renminbi or any foreign currency into or outside the PRC.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale of all or substantially all the assets of the Company to another Person (other than one or more Permitted Holders);
- (2) the Permitted Holders are the beneficial owners of less than 50.1% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the U.S. Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by any Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to July 16, 2021 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to July 16, 2021.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Company, Reference Treasury Dealer Quotations for such redemption date.

“Consolidated Assets” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense, including for the avoidance of doubt, capitalized interest included in cost of sale,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets not included in the calculation of Consolidated EBITDA), including, without limitation, land appreciation tax and enterprise income tax, and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any 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 (other than the Company and any Restricted Subsidiary) that is Guaranteed by, or secured by a Lien on any asset of, the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees and Liens on any Capital Stock of a Person that is not a Restricted Subsidiary), only to the extent that such interest has become payable by the Company or any Restricted Subsidiary and (7) any capitalized interest; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had

been the applicable rate for the entire relevant period, and for the avoidance of doubt, distributions incurred, accrued or payments on any Perpetual Bond Obligation shall not be included in the calculation of Consolidated Interest Expense.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects;
- (7) any gains and losses arising from changes in the fair value of trust loans related derivatives, as determined in conformity with GAAP; and
- (8) 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 (which may be an internal consolidated balance sheet) of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of assets, real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Core Businesses” means the acquisition, construction and development of residential properties in the PRC.

“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.

“December 6 2018 Notes” means the 6.95% Senior Notes due 2020 issued by the Company on December 6, 2018.

“December 12 2018 Notes” means the 8.75% Senior Notes due 2020 issued by the Company on December 12, 2018.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Designated Guarantee” means a Guarantee provided by any Designated Non-Guarantor in respect of Indebtedness of the Company or any Restricted Subsidiary Incurred pursuant to an indenture, facility agreement or other debt agreements outstanding on the Original Issue Date.

“Designated Non-Guarantor” means any Restricted Subsidiary that Guarantees the Existing Notes (other than the February 2019 Notes) and certain other Indebtedness of the Company or a Restricted Subsidiary but does not Guarantee the Notes, which include, as of the Original Issue Date, Platinum Profit Investments Limited, Platinum Profit (Hong Kong) Investments Limited, Dragon Coronet Limited, Golden Prosper (Hong Kong) Investments Holding Limited, Golden Prosper Investments Limited, Grandview Architectural Design Services Limited, Jolly Gain (Hong Kong) Investments Limited, Tai Ying (Hong Kong) Investments Limited and Tai Ying Investments Limited, and shall include their respective successors.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that, such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; *provided* that (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, JV Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“Existing Notes” means the January 2016 Notes, the January 2017 Notes, the May 2017 Notes, the March 2018 Notes, the April 2018 S\$ Notes, the April 2018 US\$ Notes, the August 2018 Notes, the December 6 2018 Notes, the December 12 2018 Notes and the February 2019 Notes.

“February 2019 Notes” means the 7.5% Senior Notes due 2022 issued by the Company on February 25, 2019.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“Financial Company Investor” means a bank, financial institution, trust company, fund management company, asset management company, financial management company or insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Restricted Subsidiary.

“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 quarter periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or

into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period; *provided* that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the four full fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any (i) capital commitments, deferred payment obligations, pre-sale receipts in advance from customers or similar obligations incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; (ii) any Entrusted Loan or (iii) any Perpetual Bond Obligation; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest; and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;

- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the Company’s proportionate interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of “AAA,” “AA,” “A,” “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by Lianhe Global or any of its successor or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Lianhe Global or both of them, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC primarily for rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“January 2016 Notes” means the 7.70% Senior Notes due 2020 issued by the Company on January 19, 2016.

“January 2017 Notes” means the 5.75% Senior Notes due 2022 issued by the Company on January 3, 2017.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor which is not a Subsidiary of another JV Subsidiary Guarantor, together with its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “—The Subsidiary Guarantees and the JV Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lianhe Global” means Lianhe Ratings Global Limited and its successors.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Listed Subsidiaries” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualified Exchange and any Restricted Subsidiary of a Listed Subsidiary; *provided* that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualified Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“March 2018 Notes” means the 6.375% Senior Notes due 2021 issued by the Company on March 7, 2018.

“May 2017 Notes” means the 5.25% Senior Notes due 2023 issued by the Company on May 23, 2017.

“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.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Measurement Date” means June 4, 2014.

“Moody’s” means Moody’s Investors Services, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

- (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Non-Core Businesses” means any business other than the Core Businesses, including, without limitation, the construction business.

“Non-Core Entity” means any Restricted Subsidiary which is primarily engaged, directly or indirectly, in a Non-Core Business.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the order of the Company’s agent appointed for the purpose of the Offer to Purchase (the “Tender Agent”) with a copy to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the 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 Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Tender Agent money sufficient to pay the purchase price of all Notes or portions thereof accepted for payment. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Tender Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

"Officers' Certificate" means a certificate signed by two Officers; *provided, however*, with respect to the Officers' Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers' Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"*Pari Passu* Subsidiary Guarantee" means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or another Subsidiary Guarantor or JV Subsidiary Guarantor; *provided* that (1) the Company, or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, was permitted to Incur such Indebtedness under the covenant under the caption "-Limitation on Indebtedness and Preferred Stock" and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) (x) Mr. Kei Hoi Pang (previously known as Mr. Ji Haipeng), Ms. Kei Perenna Hoi Ting (previously known as Ms. Ji Peili) and the parents, children and spouse of Mr. Kei Hoi Pang, (y) Kei Family United Limited and (z) any family trust set up by any Person listed in sub-clause (x) of this clause (1);
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of any Person specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) any Investment in cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation not entered into for speculation and designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “—Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;

- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the direct or indirect acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person), in each case in the ordinary course of business;
- (16) Guarantees permitted under clause (2)(p) or (2)(s) of the covenant under "—Limitation on Indebtedness and Preferred Stock";
- (17) any Investment (including without limitation any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the issuance or sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person; *provided* that:
 - (i) (x) the aggregate of all Investments made under this clause (17) since the Measurement Date shall not exceed in aggregate an amount equal to 35% of Total Assets, *provided*, however, that with respect to any Investment made in any Person (other than the Company or a Restricted Subsidiary) which is intended to become a Restricted Subsidiary within 18 months after the initial Investment in such Person (as evidenced by a board resolution of the Company), the aggregate amount of all Investments in such Persons made under this clause (17) shall be increased by an additional 15% 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 (17) since the Measurement Date resulting from:

- (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause (17), 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 Measurement Date under this clause of an obligation of any such Person,
- (C) to the extent that an Investment made after the Measurement Date under this clause (17) 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 Measurement Date in any such Person pursuant to this clause (17),

- (D) redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries not to exceed, in each case, the amount of Investments made pursuant to this clause (17) by the Company or any Restricted Subsidiary after the Measurement Date in any such Person, or
 - (E) any such Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment”),
- (ii) the Person into which such Investment is made is primarily engaged in a Permitted Business;
 - (iii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (17) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption “—Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Subsidiary, Minority Joint Venture or Unrestricted Subsidiary of the Company);
 - (iv) no Default has occurred and is continuing or would occur as a result of such Investment; and
 - (v) in the case of any Investments by the Company or any Restricted Subsidiary in a Person of which less than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or any of its Restricted Subsidiaries, at the time of such Investment the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “—Limitation of Indebtedness and Preferred Stock”;

For the avoidance of doubt, the value of each Investment made pursuant to this clause shall be valued at the time such Investment is made;

- (18) advances or prepayments to government authorities or government-affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Company’s balance sheet; and
- (19) any Investment deemed to have been made by the Company or any Restricted Subsidiary in any Non-Core Entity of a Qualified Spin-off Group upon the designation of such Non-Core Entity as an Unrestricted Subsidiary.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (f) of the second paragraph of the covenant under the caption "*—Limitation on Indebtedness and Preferred Stock*";
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled "*—Limitation on Indebtedness and Preferred Stock*"; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;

- (14) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “—Limitation on Indebtedness and Preferred Stock”;
- (15) 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;
- (16) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets (other than, in each case, deposits of loan proceeds securing performance of obligations in relation to the use of such loan proceeds under a loan or similar agreement to which such loan proceeds relate to, entered into by the Company or any Restricted Subsidiary, if the Indebtedness Incurred under such agreement is otherwise permitted under the terms of the Indenture) subject to Liens incurred pursuant to this clause (16) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (17) 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;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens securing Indebtedness permitted under clause (2)(n) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;

- (21) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(o) or (2)(v), respectively, of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (22) Liens granted by the Company or a Restricted Subsidiary in favor of a Financial Company Investor in respect of, and to secure, the Indebtedness permitted under clause (2)(p) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (23) Liens incurred on one or more bank accounts or deposits made to secure Bank Deposit Secured Indebtedness of the type described under clause (2)(q) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (24) Liens securing Indebtedness permitted to be Incurred under clause (2)(r) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (25) Liens securing Indebtedness permitted under clause (2)(s) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (26) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary permitted to be Incurred under clause (2)(u) of the covenant described under the caption entitled “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”;
- (27) Liens Incurred on deposits made to secure Entrusted Loans; and
- (28) Liens on deposits made in order to secure the performance of payment obligations under a loan or similar agreement entered into by the Company or any Restricted Subsidiary, if such deposits are made no earlier than six months before the relevant amount becomes due under such agreement and the amount of any such deposits does not exceed the corresponding payment obligations under such agreement.

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (excluding any Indebtedness of the Subsidiary Guarantors); *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding, without duplication, Public Indebtedness or any Indebtedness of any Subsidiary Guarantor and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m) and (o) of the covenant described under “—Certain Covenants—Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 35% of the Total Assets.

“Perpetual Bond Obligation” means perpetual securities that are accounted for as equity in accordance with the relevant generally accepted accounting principles, the aggregate outstanding principal amount of which, if issued by the Company or any Restricted Subsidiary, does not exceed 20% of Total Assets at any time.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of

properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on September 3, 2016) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Qualified Exchange” means either (1) The New York Stock Exchange, the Nasdaq Stock market, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the 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 a listing (or a deemed new listing pursuant to the rules of the relevant stock exchange or governing body) of the Voting Stock of a company on a Qualified Exchange; *provided* that in the case that such listing is on a national securities exchange (as such term is defined in Section 6 of the 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.

“Qualified Spin-off Group” means, collectively, (i) any Non-Core Entity the Voting Stock of which is, or is expected to be pursuant to a definitive plan, listed on a Qualified Exchange in a Qualified Spin-off IPO, and (ii) the Subsidiaries of such Non-Core Entity.

“Qualified Spin-off IPO” means any Qualified IPO of a Non-Core Entity; *provided* that the Board of Directors of the Company has determined in good faith that the designation of such Non-Core Entity and its Subsidiaries as Unrestricted Subsidiaries is necessary to obtain approval from a Qualified Exchange for such Qualified IPO.

“Rating Agencies” means (1) S&P and (2) Lianhe Global, *provided* that if S&P or Lianhe Global or both of them shall not make a rating of the Notes publicly available, one or more nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Lianhe Global, or both of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (2) with respect to Lianhe Global, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Lianhe Global used by

another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P and Lianhe Global; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P or Lianhe Global, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “-Consolidation, Merger and Sale of Assets”, that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by the Rating Agency) of any of the events listed below, or (2) in connection with actions contemplated under the caption “-Consolidation, Merger and Sale of Assets”, the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade; or
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) In the event the Notes are rated below Investment Grade by both of the Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average 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 time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such entity.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and

Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Economic Area, shall be rated at least “A” by S&P or Moody’s;

- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in 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 “A-1” (or higher) according to S&P or “P-1” (or higher) according to Moody’s;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) (i) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any banks or financial institutions organized under the laws of the PRC or Hong Kong or (ii) structured deposit products with a term not exceeding six months that are principal protected with any banks organized under the laws of the PRC or Hong Kong.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that:

- (1) only with respect to clause (2)(h) of “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness;

- (2) only with respect to clause (2)(t) of “—Certain Covenants—Limitation on Indebtedness and Preferred Stock” covenant, with respect to the Incurrence of any Acquired Indebtedness as a result of any Person becoming a Restricted Subsidiary, Total Assets shall be calculated after giving *pro forma* effect to include the consolidated assets of such Restricted Subsidiary and any other change to the consolidated assets of the Company as a result of such Person becoming a Restricted Subsidiary; and
- (3) only with respect to any Person becoming a New Non-Guarantor Subsidiary, *pro forma* effect shall at such time be given to the consolidated assets of such New Non-Guarantor Subsidiary (including giving *pro forma* effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a New Non-Guarantor Subsidiary).

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, BVI, Hong Kong and PRC tax consequences relating to the Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

CAYMAN ISLANDS

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (a) on or in respect of the shares, debentures or other obligations of the Company; or
 - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from June 1, 2010. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company or investors holding the Notes only by reason of holding such Notes levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

BVI

There is no income or other tax of BVI imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors incorporated in BVI pursuant to the Subsidiary Guarantees.

HONG KONG

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale,

disposition or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Interest payments on the Notes will be subject to Hong Kong profits tax where such payments have a Hong Kong source, and are received by or accrue to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arise through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest payment is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposition of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

PRC

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest

The CIT Law issued on March 16, which was amended on February 24, 2017 and became effective on February 24, 2017 and December 29, 2018, and its implementation rules, effective January 1, 2008, imposes a withholding tax at the rate of 10% on interest from PRC sources paid to a holder of notes that is a “non-resident enterprise” if such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China unless a preferential rate is provided by tax treaties or arrangements between the country or region where the non-resident is domiciled and the PRC. We may be considered a PRC tax resident enterprise. “Risk Factors—Risks relating to Our Business—We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and result in PRC withholding taxes on interest we pay on the Notes and PRC tax on the transfer of the Notes.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, interest paid to non-resident holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the CIT Law (which tax rate may be reduced to 7% in the case of non-resident enterprise holders located in Hong Kong who qualify for the benefits of the double taxation treaty between Hong Kong and the PRC), or PRC individual withholding tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws and their implementation rules. However, the tax obligations under PRC tax laws and their implementation rules may be decreased or exempted by applicable tax treaties. We currently do not intend to withhold taxes from interest

payments, but there can be no assurance that the PRC income tax authorities will accept our position on this issue. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified investors in the Notes.

Taxation on Capital Gains

The CIT Law and its implementation rules imposes a tax at the rate of 10% on capital gains from PRC sources realized by holders of notes that are “non-resident enterprises” if any such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of an establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China. We may be considered a PRC tax resident enterprise. Although the issue is not entirely clear, if we are considered a PRC resident enterprise, the capital gains realized by non-resident holders of the Notes may be treated as income derived from sources within China and be subject to PRC tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the CIT Law unless reduced or exempted by an applicable tax treaty, or PRC individual income tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws and their implementation rules, which may be reduced or exempted by an applicable tax treaty. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes.

VAT

On March 23, 2016 the MOF and the SAT issued Circular 36 which stipulates that the business tax will be completely replaced with VAT from May 1, 2016 onwards. Therefore, income derived from the provision of financial services, which previously incurred business tax, will now be subject to VAT.

According to Circular 36, entities and individuals providing services within the PRC are 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 potentially subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that “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 may be treated as the holders of the Notes providing financial services in the form of loans to the Company for VAT purposes. In the event the Company is deemed to be a PRC resident enterprise by the PRC tax authorities, the holders of the Notes may be regarded as providing financial services within the PRC and consequently, the amount of interest payable by the Company to any non-resident holders of the Notes may subject to withholding VAT at the rate of 6% plus related surcharges.

Circular 36 has recently been issued and much uncertainty remains as to its application. The above statements regarding Circular 36 may be subject to further changes following clarification from the competent tax authority.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside China and the sale of the Notes is made outside the PRC).

PLAN OF DISTRIBUTION

Deutsche Bank AG, Singapore Branch, BOCI Asia Limited, Barclays Bank PLC, China CITIC Bank International Limited, Haitong International Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, China Industrial Securities International Brokerage Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, HeungKong Securities Limited, CEB International Capital Corporation Limited and CCB International Capital Limited are acting as joint bookrunners and joint lead managers of the offering and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Initial Purchaser named below has severally but not jointly agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite such Initial Purchaser's name.

Initial Purchaser	Principal Amount of Notes
Deutsche Bank AG, Singapore Branch	US\$80,000,000
BOCI Asia Limited.	US\$65,000,000
Barclays Bank PLC.	US\$65,000,000
China CITIC Bank International Limited	US\$37,000,000
Haitong International Securities Company Limited	US\$52,000,000
Guotai Junan Securities (Hong Kong) Limited.	US\$38,000,000
China Industrial Securities International Brokerage Limited	US\$12,000,000
China Minsheng Banking Corp., Ltd., Hong Kong Branch	US\$12,000,000
HeungKong Securities Limited.	US\$12,000,000
CEB International Capital Corporation Limited	US\$15,000,000
CCB International Capital Limited.	US\$12,000,000
Total	US\$400,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. See the section entitled "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice. Private banks may receive a commission based on the principal amount of the Notes purchased by their own clients.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantee (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See the section entitled "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, the Initial Purchasers are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

Investors who purchase Notes from the Initial Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

The Initial Purchasers may engage in stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither the Company nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Company nor the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days; purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T + 5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

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

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

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction.

SELLING RESTRICTION

General

No action has been taken or will be taken in any jurisdiction by the Company or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchaser or any affiliate of the Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Initial Purchaser or such affiliate on behalf of the Issuer in such jurisdiction.

PRIIPs Regulation/Prohibition of sales to EEA retail investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United States

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See the section entitled “Transfer Restrictions.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in compliance with an available exemption from registration under the Securities Act.

United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which Section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued, to a limited number of prospective applicants for the Notes in Hong Kong in a

manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder.

Japan

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

Singapore

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

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

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

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

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;

- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

PRC

The Initial Purchasers have acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Each of the Initial Purchasers has severally represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Company is listed on the Cayman Islands Stock Exchange.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the BVI to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Notes have not been registered under the Securities Act or any other applicable securities laws;
 - the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
 - the Notes are being offered and sold only to non-U.S. persons outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Notes may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that you are purchasing the Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase the Notes including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the 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 Notes in violation of the Securities Act.
5. You acknowledge and agree that if you decide to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes during the period from the closing date until the date that is 40 days after the later of the closing date and the last date that the Company or any of their respective affiliates was the owner of the Notes or any predecessor of the Notes, such Notes may be resold, pledged, or transferred only, (a) to the Company or any subsidiary thereof, (b) in an offshore transaction outside of the United States meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act, (c) pursuant to an effective registration statement under the Securities Act or (d) pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes under this clause (d) the Company, the Trustee, the Paying Agent, the Transfer Agent or the Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption), and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction.

6. You agree to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 5 above, if then applicable.
7. You acknowledge that each Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

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, FOR A PERIOD OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OR THE ORIGINAL ISSUE DATE HEREOF (THE "RESALE RESTRICTION PERIOD"), ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) OUTSIDE THE UNITED STATES IN A TRANSACTION COMPLYING WITH THE PROVISIONS OF RULE 904 UNDER THE SECURITIES ACT, (C) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT FOR A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

8. You acknowledge that we, the Initial Purchasers, the Trustee, the Transfer Agent and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify us, the Initial Purchasers, the Trustee and the Transfer Agent. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

9. You also acknowledge that this offering memorandum has not been and will not be registered as a prospectus with the MAS under the SFA. Accordingly, you have represented, warranted and agreed that you have not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will you circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

RATINGS

The Notes are expected to be rated “B+” by S&P Ratings and “BB+” by Lianhe Global. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term foreign currency issuer default rating of “BB-” with a positive outlook by Fitch Ratings, a long-term foreign currency issuer default rating of “Ba3” with a stable outlook by Moody’s Ratings, a long-term foreign currency issuer default rating of “BB-” with a positive outlook by S&P Ratings and an issuer rating of “BB+” with a stable outlook by Lianhe Global. We cannot assure you that the ratings on the Notes or our corporate credit rating will remain in effect for any given period or that the ratings will not be lowered, put on negative outlook or CreditWatch negative, or otherwise revised or withdrawn entirely by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law, Conyers Dill & Pearman as to matters of Cayman Islands law and Conyers Dill & Pearman as to matters of BVI law and Commerce & Finance Law Offices as to matters of PRC Law. Certain legal matters will be passed upon for the Initial Purchasers by Norton Rose Fulbright Hong Kong as to matters of United States federal and New York law and Haiwen & Partners as to matters of PRC Law.

INDEPENDENT AUDITOR

Our consolidated financial statements as of and for the year ended December 31, 2018 included in this offering memorandum have been audited by Ernst & Young as stated in their report appearing herein.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the BVI and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of directors dated July 8, 2019.

LITIGATION

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

NO MATERIAL ADVERSE CHANGE

Except as otherwise disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2018 that is material in the context of the issue of the Notes.

DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected by holders of the Notes upon satisfactory proof of holding free of charge during normal business hours on any Business Day (except public holidays) at the corporate trust office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any Business Day (except public holidays) at our place of business in Hong Kong.

CLEARING SYSTEMS

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

	<u>ISIN</u>	<u>Common Code</u>
Regulation S Notes.	XS2027337786	202733778

LISTING OF THE NOTES

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the offering, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any of their respective associated companies (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for individual definitive Notes, we will appoint and maintain a paying agent in Singapore, where the individual definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for individual definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual definitive Notes, including details of the paying agent in Singapore.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements as of and for the year ended December 31, 2018

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Note:

- (1) Our consolidated annual financial statements as of and for the year ended December 31, 2018 set forth herein have been produced from our annual report for the year ended December 31, 2018 and page references are references to pages set forth in such report.

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Logan Property Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Logan Property Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 87 to 200 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter*Valuation of investment properties*

As at 31 December 2018, the Group held investment properties with a carrying amount of RMB18,338 million. The carrying amount of the investment properties represented 11% of the total assets of the Group as at 31 December 2018 and is significant to the consolidated financial statements.

The Group has engaged external valuers to determine the fair value of the investment properties at the end of the reporting period.

We identified this as a key audit matter because the carrying amount of the investment properties is significant to the Group and significant estimations are involved in determining the fair value of the investment properties. The determination of valuation models adopted also involved significant judgements.

Related disclosures are included in notes 3, 4 and 16 to the consolidated financial statements.

How our audit addressed the key audit matter

We evaluated the objectivity, independence and competence of the external valuers engaged by management of the Group. We also involved our internal valuation specialists to assist us with our audit in evaluating the valuation models, assumptions and parameters adopted in the valuation. We compared the management's external valuer valuations to the range provided by our internal valuation specialists. We also evaluated the significant inputs to the valuation used.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="204 533 746 595"><i>Recoverability of receivables from joint ventures and associates</i></p> <p data-bbox="204 633 799 864">As at 31 December 2018, the Group had receivables from joint ventures and associates amounting to RMB30,054 million and RMB6,822 million, respectively. The aggregate amount of RMB36,876 million represented 22% of the total assets of the Group as at 31 December 2018 and is significant to the consolidated financial statements.</p> <p data-bbox="204 898 799 1193">The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, such as risk of default, loss given default and collateral recovery, changes in which can result in different levels of allowances.</p> <p data-bbox="204 1227 799 1523">The Group's expected credit loss calculations on receivables from joint ventures and associates are based on assumptions about risk of default and loss given default. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on credit risk of the debtors or comparable companies in the market, existing market conditions as well as forward looking estimates at the end of each reporting period.</p> <p data-bbox="204 1556 799 1693">The Group has engaged external valuers to determine the expected credit loss of receivables from joint ventures and associates at the end of the reporting period.</p> <p data-bbox="204 1727 799 1921">We identified this as a key audit matter because the carrying amount of the receivables from joint ventures and associates is significant to the Group and significant estimation and judgement are required by management to assess the recoverability of the receivables from joint ventures and associates.</p> <p data-bbox="204 1955 799 2018">Related disclosures are included in notes 3, 4, 17, 18 and 20 to the consolidated financial statements.</p>	<p data-bbox="831 633 1426 730">We evaluated the management's assessment on recoverability or expected credit losses of balances by performing the following procedures:</p> <ul style="list-style-type: none"> <li data-bbox="831 763 1426 900">— We discussed with management to gain an understanding of the purpose and background of the underlying investments made by the joint ventures and associates. <li data-bbox="831 934 1426 1070">— We examined the cooperation contracts and agreements for the projects acquired and title documents of the underlying assets acquired by the joint ventures and associates. <li data-bbox="831 1104 1426 1263">— We reviewed the valuation reports or investment return analyses of the projects acquired and evaluated the key estimates and assumptions adopted in the valuation reports or investment return analyses. <li data-bbox="831 1296 1426 1456">— We examined supporting documents for significant payments made by the joint ventures and associates and obtained direct confirmations from joint ventures and associates on the balance of receivables. <li data-bbox="831 1489 1426 1592">— We inspected the title documents of land or development right agreements held by the joint ventures and associates. <li data-bbox="831 1626 1426 1688">— We performed site visit to evaluate the status of construction and existence of projects. <li data-bbox="831 1722 1426 1825">— We evaluated the impairment assessment of the receivables from joint ventures and associates made by management. <li data-bbox="831 1859 1426 2054">— We involved our internal specialists to assist us to evaluate the assumptions and other inputs including probability of default, loss given default and forward looking element in determining the expected credit loss on receivables from joint ventures and associates.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chow Chi Chung.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

19 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	6	44,136,908	27,689,658
Cost of sales		(29,250,015)	(18,172,475)
Gross profit		14,886,893	9,517,183
Other income and gains	6	1,368,665	696,303
Other expenses	7	(56,655)	(10,056)
Selling and marketing expenses		(1,231,356)	(928,729)
Administrative expenses		(1,133,851)	(748,045)
Net increase in fair value of investment properties	16	1,740,726	2,942,276
Net increase/(decrease) in fair value of derivative financial instruments		45,970	(113,214)
Share of profits and losses of associates		(42,958)	278,497
Share of losses of joint ventures		(141,431)	(73,097)
PROFIT FROM OPERATIONS		15,436,003	11,561,118
Finance costs	8	(1,416,943)	(672,154)
PROFIT BEFORE TAX	9	14,019,060	10,888,964
Income tax expense	12	(5,023,154)	(3,880,514)
PROFIT FOR THE YEAR		8,995,906	7,008,450
Attributable to:			
Owners of the parent		8,288,398	6,527,400
Non-controlling interests		707,508	481,050
		8,995,906	7,008,450
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents)	14		
Basic		147.95	117.03
Diluted		145.69	115.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	RMB'000	RMB'000
PROFIT FOR THE YEAR	8,995,906	7,008,450
OTHER COMPREHENSIVE INCOME FOR THE YEAR (after tax and reclassification adjustments)		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of group entities	(283,783)	80,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	8,712,123	7,088,450
Attributable to:		
Owners of the parent	8,004,615	6,607,400
Non-controlling interests	707,508	481,050
	8,712,123	7,088,450

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Investment properties	16	18,338,011	15,664,830
Other property, plant and equipment	15	176,014	147,867
Deferred tax assets	28	649,725	330,206
Investments in associates	17	1,447,180	2,653,386
Investments in joint ventures	18	18,042,573	9,261,913
Assets under cross-border guarantee arrangements	21	526,335	—
Restricted and pledged deposits	22	274,350	218,102
Total non-current assets		39,454,188	28,276,304
CURRENT ASSETS			
Inventories	19	54,780,698	38,457,739
Trade and other receivables, prepayments and other assets	20	37,816,369	20,448,286
Tax recoverable		773,299	753,256
Assets under cross-border guarantee arrangements	21	1,827,322	1,745,380
Restricted and pledged deposits	22	6,990,339	2,311,691
Cash and cash equivalents	22	28,452,462	19,878,192
Total current assets		130,640,489	83,594,544
CURRENT LIABILITIES			
Trade and other payables	23	47,449,771	37,275,788
Contract liabilities	24	16,784,879	—
Liabilities under cross-border guarantee arrangements	21	2,515,233	1,745,380
Bank and other loans	25	9,577,092	5,597,885
Senior notes	26	—	2,965,541
Other current liabilities	27	7,652,449	7,000,000
Tax payable		4,559,087	2,709,162
Total current liabilities		88,538,511	57,293,756
NET CURRENT ASSETS		42,101,978	26,300,788
TOTAL ASSETS LESS CURRENT LIABILITIES		81,556,166	54,577,092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<hr/>			
TOTAL ASSETS LESS CURRENT LIABILITIES		81,556,166	54,577,092
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NON-CURRENT LIABILITIES			
Liabilities under cross-border guarantee arrangements	21	526,335	—
Bank and other loans	25	11,966,970	14,191,435
Senior notes	26	16,764,667	5,924,103
Corporate bonds	27	12,980,000	5,162,449
Deferred tax liabilities	28	2,572,408	2,135,296
<hr/>			
Total non-current liabilities		44,810,380	27,413,283
<hr/>			
Net assets		36,745,786	27,163,809
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EQUITY			
Equity attributable to owners of the parent			
Share capital	29	434,041	433,828
Perpetual capital securities	31	2,363,346	2,363,346
Reserves	32	26,451,419	20,509,047
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		29,248,806	23,306,221
Non-controlling interests		7,496,980	3,857,588
<hr/>			
Total equity		36,745,786	27,163,809
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Lai Zhuobin
Director

Xiao Xu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent								Total	Non-controlling interests	Total equity
	Share capital	Share premium	Share-based compensation reserve	Exchange reserve	PRC statutory reserves	Other reserve	Retained profits	Perpetual capital securities			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 29)	(note 32(i))	(note 30)	(note 32(ii))	(note 32(iii))			(note 31)			
At 1 January 2017	434,591	1,899,444	95,062	(123,177)	832,451	2,902,849	13,385,629	—	19,426,849	6,324,497	25,751,346
Profit for the year	—	—	—	—	—	—	6,527,400	—	6,527,400	481,050	7,008,450
Other comprehensive income —											
Exchange differences on translation of financial statements of group entities	—	—	—	80,000	—	—	—	—	80,000	—	80,000
Total comprehensive income for the year	—	—	—	80,000	—	—	6,527,400	—	6,607,400	481,050	7,088,450
Transfer to PRC statutory reserves	—	—	—	—	89,213	—	(89,213)	—	—	—	—
Repurchase and cancellation of own shares	(1,308)	(92,153)	—	—	—	—	—	—	(93,461)	—	(93,461)
Dividends declared	—	(1,825,290)	—	—	—	—	(333,416)	—	(2,158,706)	—	(2,158,706)
Issuance of shares in connection with the exercise of share options	545	17,999	(5,779)	—	—	—	—	—	12,765	—	12,765
Equity-settled share-based transactions	—	—	14,237	—	—	—	—	—	14,237	—	14,237
Effect of forfeited share options	—	—	(14,372)	—	—	—	14,372	—	—	—	—
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(88,200)	(88,200)
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	5,394	5,394
Acquisition of additional interests in subsidiaries	—	—	—	—	—	(3,088,139)	—	—	(3,088,139)	(3,162,204)	(6,250,343)
Capital contribution from non-controlling shareholders	—	—	—	—	—	301,597	—	—	301,597	297,051	598,648
Issuance of perpetual capital securities	—	—	—	—	—	—	—	2,363,346	2,363,346	—	2,363,346
Distribution to holders of perpetual capital securities	—	—	—	—	—	—	(79,667)	—	(79,667)	—	(79,667)
At 31 December 2017	433,828	—*	89,148*	(43,177)*	921,664*	116,307*	19,425,105*	2,363,346	23,306,221	3,857,588	27,163,809

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent											
	Share capital RMB'000 (note 29)	Share premium RMB'000 (note 32(i))	Share-based compensation		Exchange reserve RMB'000 (note 32(ii))	PRC statutory reserves RMB'000 (note 32(iii))	Other reserve RMB'000	Retained profits RMB'000	Perpetual capital securities RMB'000 (note 31)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			reserve	reserve								
			RMB'000 (note 30)	RMB'000 (note 32(iii))								
At 1 January 2018	433,828	—*	89,148*	(43,177)*	921,664*	116,307*	19,425,105*	2,363,346	23,306,221	3,857,588	27,163,809	
Profit for the year	—	—	—	—	—	—	8,288,398	—	8,288,398	707,508	8,995,906	
Other comprehensive income —												
Exchange differences on translation of financial statements of group entities	—	—	—	(283,783)	—	—	—	—	(283,783)	—	(283,783)	
Total comprehensive income for the year	—	—	—	(283,783)	—	—	8,288,398	—	8,004,615	707,508	8,712,123	
Transfer to PRC statutory reserves	—	—	—	—	196,078	—	(196,078)	—	—	—	—	
Repurchase and cancellation of own shares	(1,339)	(50,033)	—	—	—	—	(63,383)	—	(114,755)	—	(114,755)	
2017 final and special dividends declared	—	—	—	—	—	—	(914,828)	—	(914,828)	—	(914,828)	
2018 interim and special dividends declared	—	—	—	—	—	—	(1,346,229)	—	(1,346,229)	—	(1,346,229)	
Issuance of shares in connection with the exercise of share options	1,552	50,033	(14,824)	—	—	—	—	—	36,761	—	36,761	
Equity-settled share-based transactions	—	—	20,963	—	—	—	—	—	20,963	—	20,963	
Effect of forfeited share options	—	—	(7,082)	—	—	—	7,082	—	—	—	—	
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(121,500)	(121,500)	
Deemed disposal of subsidiaries	—	—	—	—	—	133,095	(18,221)	—	114,874	—	114,874	
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	47,383	47,383	
Acquisition of additional interests in subsidiaries	—	—	—	—	—	185,887	—	—	185,887	(3,890,745)	(3,704,858)	
Capital contribution from non-controlling shareholders	—	—	—	—	—	103,254	—	—	103,254	6,896,746	7,000,000	
Distribution to holders of perpetual capital securities	—	—	—	—	—	—	(147,957)	—	(147,957)	—	(147,957)	
At 31 December 2018	434,041	—*	88,205*	(326,960)*	1,117,742*	538,543*	25,033,889*	2,363,346	29,248,806	7,496,980	36,745,786	

* These reserve accounts comprise the consolidated reserves of RMB26,451,419,000 (2017: RMB20,509,047,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		14,019,060	10,888,964
Interest income	6	(1,013,967)	(581,797)
Finance costs	8	1,416,943	672,154
Depreciation	9	57,295	64,421
Net loss on disposal of items of other property, plant and equipment	9	3	65
Share of losses of joint ventures		141,431	73,097
Share of profits and losses of associates		42,958	(278,497)
Net increase in fair value of investment properties	16	(1,740,726)	(2,942,276)
Net (increase)/decrease in fair value of derivative financial instruments		(46,205)	113,214
Gain on bargain purchase	34	(38)	(514)
Gain on remeasurement of pre-existing interests in joint ventures	34	(47,384)	—
Gain on deemed disposal of subsidiaries upon loss of control, net	35(b)	(188,368)	(35,298)
Gain on disposal of subsidiaries, net	35(a)	—	(830)
Equity-settled share-based transactions	9	20,963	14,237
		12,661,965	7,986,940
(Increase)/decrease in inventories and land deposits		(2,713,760)	1,245,716
Increase in trade and other receivables, prepayments and other assets		(5,462,668)	(3,539,068)
(Decrease)/increase in trade and other payables		(14,336,249)	8,501,730
Increase in contract liabilities		16,784,879	—
Cash generated from operations		6,934,167	14,195,318
Tax paid		(2,365,717)	(2,679,500)
Net cash flows from operating activities		4,568,450	11,515,818

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		595,912	581,797
Addition to investment properties	16	(906,514)	(472,488)
Addition to other property, plant and equipment	15	(52,019)	(36,287)
Disposal of subsidiaries	35(a)	—	249,113
Deemed disposal of subsidiaries	35(b)	(1,036,835)	(521,364)
Acquisition of subsidiaries that are not a business	34(a)	148,226	(1,376,662)
Acquisition of subsidiaries	34(b)	2,688,973	—
Investments in joint ventures		(111,500)	(172,521)
Investments in associates		(20,000)	(3,000)
Advances to joint ventures		(18,980,006)	(5,968,585)
Advances to associates		(1,639,228)	(2,835,482)
Proceeds from disposal of other property, plant and equipment		1,979	3,640
Increase in restricted and pledged deposits		(4,734,896)	(1,292,317)
Net cash flows used in investing activities		(24,045,908)	(11,844,156)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(2,497,094)	(2,557,927)
Proceeds from bank and other loans		17,925,640	14,144,113
Repayment of bank and other loans		(14,579,569)	(7,674,671)
Proceeds from issuance of senior notes		10,096,410	7,149,799
Repayment of senior notes		(3,108,477)	(3,576,859)
Proceeds from issuance of corporate bonds		8,490,000	—
Repayment of corporate bonds		(20,000)	(237,551)
Proceeds from issuance of perpetual capital securities	31	—	2,363,346
Proceeds from cross-border guarantee arrangements		687,911	—
Proceeds from issuance of shares in connection with the exercise of share options		36,761	12,765
Repurchase of own shares		(114,755)	(93,461)
Increase in amounts due to non-controlling shareholders		10,590,550	14
(Repayment to)/advances from joint ventures		(926,526)	3,935,168
Capital contribution from non-controlling shareholders		7,000,000	598,648
Payments for acquisition of non-controlling interests subject to repurchase obligations		—	(2,021,956)
Payments for acquisition of non-controlling interests		(3,621,778)	(4,199,773)
Dividends paid to non-controlling shareholders		(121,500)	(88,200)
Proceeds from loans from a non-controlling shareholder		94,000	—
Distribution paid to holders of perpetual capital securities		(147,957)	(79,667)
Dividends paid to ordinary equity shareholders of the Company		(1,515,782)	(656,528)
Net cash flows from financing activities		28,267,834	7,017,260

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		8,790,376	6,688,922
Cash and cash equivalents at beginning of year		19,878,192	13,559,827
Effect of foreign exchange rate changes		(216,106)	(370,557)
CASH AND CASH EQUIVALENTS AT END OF YEAR		28,452,462	19,878,192
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		18,162,528	15,880,566
Non-pledged time deposits		10,289,934	3,997,626
Cash and cash equivalents as stated in the consolidated statement of cash flows and the consolidated statement of financial position	22	28,452,462	19,878,192

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Logan Property Holdings Company Limited (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liability. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in property development, property investment, construction and decoration and primary land development in the People’s Republic of China (the “PRC”) during the year.

In the opinion of the directors, the ultimate controlling party of the Company is Ms. Kei Perenna Hoi Ting, who is a non-executive director of the Company.

Information about subsidiaries

The following list contains particulars of the Company’s principal subsidiaries. All of them are established in the PRC unless otherwise stated.

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group’s effective interest	Held by the Company	Held by subsidiary	
Logan Construction Co., Ltd.* (note) (龍光工程建設有限公司)	RMB80,000,000	91%	—	91%	Property construction
Shenzhen Logan Holdings Co., Ltd.** (note) (深圳市龍光控股有限公司)	RMB443,000,000	100%	—	100%	Investment holding
Zhongshan Logan Property Co., Ltd.* (note) (中山市龍光房地產有限公司)	RMB30,000,000	100%	—	100%	Property development
Nanning Logan Property Development Co., Ltd.* (note) (南寧市龍光房地產開發有限公司)	RMB100,000,000	100%	—	100%	Property development and investment
Guangzhou Logan Property Co., Ltd.* (note) (廣州市龍光房地產有限公司)	RMB40,000,000	100%	—	100%	Property development and investment
Guangzhou Logan Realty Co., Ltd.* (note) (廣州市龍光置業有限公司)	RMB30,000,000	100%	—	100%	Property development
Huizhou Daya Bay Logan Property Co., Ltd.* (note) (惠州大亞灣龍光房地產有限公司)	RMB10,000,000	100%	—	100%	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shantou Logan Property Co., Ltd.* (note) (汕頭市龍光房地產有限公司)	RMB10,000,000	100%	—	100%	Property development
Zhuhai Logan Property Development Co., Ltd.* (note) (珠海市龍光房地產開發有限公司)	RMB30,000,000	100%	—	100%	Property development and investment
Foshan Shunde Logan Realty Co., Ltd.* (note) (佛山市順德區龍光置業房產有限公司)	RMB35,295,000	100%	—	100%	Property development
Huizhou Logan Property Co., Ltd.* (note) (惠州市龍光房地產有限公司)	RMB30,000,000	100%	—	100%	Property development
Dongguan Logan Property Co., Ltd.* (note) (東莞市龍光房地產有限公司)	RMB50,000,000	100%	—	100%	Property development
Shantou Jinfengyuan Realty Co., Ltd.* (note) (汕頭市金鋒園置業有限公司)	RMB66,000,000	100%	—	100%	Property development
Nanning Logan Jinjun Property Development Co., Ltd.* (note) (南寧市龍光金駿房地產開發有限公司)	RMB50,000,000	100%	—	100%	Property development and investment
Hainan Logan Property Development Co., Ltd.* (note) (海南龍光房地產開發有限公司)	RMB20,000,000	100%	—	100%	Property development
Chengdu Logan Property Co., Ltd.* (note) (成都市龍光房地產有限公司)	RMB10,000,000	100%	—	100%	Property development
Shantou Logan Realty Co., Ltd.* (note) (汕頭市龍光置業有限公司)	RMB33,000,000	100%	—	100%	Property development and investment

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shantou Jiarun Property Co., Ltd.* (note) (汕頭市佳潤房地產有限公司)	RMB50,000,000	100%	—	100%	Property development
Hainan Jinjun Realty Co., Ltd.* (note) (海南金駿置業有限公司)	RMB351,800,000	100%	—	100%	Property development
Foshan Shancheng Logan Property Co., Ltd.* (note) (佛山市禪城區龍光房地產有限公司)	RMB10,500,000	100%	—	100%	Property development
Nanning Logan Bojun Property Development Co., Ltd.* (note) (南寧市龍光鉞駿房地產開發 有限公司)	RMB700,000,000	100%	—	100%	Property development
Chengdu Logan Jinjun Realty Co., Ltd.* (note) (成都市龍光金駿置業有限公司)	RMB10,000,000	100%	—	100%	Property development
Chengdu Logan Donghua Property Development Co., Ltd.* (note) (成都市龍光東華房地產開發 有限公司)	RMB558,059,600	100%	—	100%	Property development
Shantou Weida Property Co., Ltd.** (note) (汕頭市偉達房地產有限公司)	RMB54,200,441	100%	—	100%	Property development
Shenzhen Logan Dongzhen Realty Co., Ltd.* (note) (深圳市龍光東圳置業有限公司)	RMB30,000,000	100%	—	100%	Investment holding
Huizhou Daya Bay Dongzhen Property Co., Ltd.* ("Huizhou Dongzhen") (note) (惠州大亞灣東圳房地產有限公司)	RMB100,000,000	82%	—	82%	Property development and investment
Shenzhen Logan Property Co., Ltd.* (note) (深圳市龍光房地產有限公司)	RMB80,000,000	100%	—	100%	Property development and investment

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shenzhen Yongjing Decorating Construction Co., Ltd.* (note) (深圳市潤景裝飾工程有限公司)	RMB200,000,000	91%	—	100%	Provision of decoration services to joint ventures and associates
Shenzhen Logan Media Planning Co., Ltd.* (note) (深圳市龍光傳媒策劃有限公司)	RMB2,200,000	100%	—	100%	Provision of advertising services to joint ventures and associates
Nanning Logan Junchi Property Development Co., Ltd.* (note) (南寧市龍光駿馳房地產開發有限公司)	RMB35,000,000	100%	—	100%	Property development
Zhongshan Jinjun Property Co., Ltd.* (note) (中山市金駿房地產有限公司)	RMB10,000,000	100%	—	100%	Property development
Foshan Nanhai Logan Realty Co., Ltd.* (note) (佛山市南海區龍光置業房產有限公司)	RMB58,820,000	100%	—	100%	Property development
Shenzhen Logan Investment Consultancy Co., Ltd.* (note) (深圳市龍光投資顧問有限公司)	RMB10,000,000	100%	—	100%	Investment holding
Dongguan Logan Realty Co., Ltd.* (note) (東莞市龍光置業有限公司)	RMB10,500,000	100%	—	100%	Property development
Shantou Logan Jinjun Property Co., Ltd.* (note) (汕頭市龍光金駿房地產有限公司)	RMB50,000,000	100%	—	100%	Property development
Zhongshan Junchi Property Co., Ltd.* (note) (中山市駿馳房地產有限公司)	RMB10,500,000	100%	—	100%	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Foshan Runjing Property Co., Ltd.* (note) (佛山市順德區龍光潤景房地產有限公司)	RMB50,000,000	100%	—	100%	Property development
Foshan Logan Realty Co., Ltd.* (note) (佛山市龍光置業房地產有限公司)	RMB10,500,000	100%	—	100%	Property development
Shantou Logan Junjing Property Co., Ltd.* (note) (汕頭市龍光駿景房地產有限公司)	RMB49,908,125	100%	—	100%	Property development
Shenzhen Jinjun Property Co., Ltd.* (note) (深圳市金駿房地產有限公司)	RMB198,000,000	100%	—	100%	Property development
Guilin Logan Bojun Property Development Co., Ltd.* (note) (桂林市龍光鉞駿房地產開發有限公司)	RMB50,000,000	100%	—	100%	Property development
Haikou Logan Property Development Co., Ltd.* (note) (海口市龍光房地產開發有限公司)	RMB102,500,000	100%	—	100%	Property development
Shenzhen Logan Junchi Property Development Co., Ltd.* (note) (深圳市龍光駿馳房地產開發有限公司)	RMB5,000,000	51%	—	51%	Property development
Foshan Logan Sunshine Seaward Property Co., Ltd.* (note) (佛山市龍光陽光海岸房地產有限公司)	RMB50,000,000	66%	—	66%	Property development
Guangxi King Kerry Realty Co., Ltd.* (note) (廣西金凱利置業有限公司)	US\$18,000,000	95%	—	95%	Property development
Zhuhai Junjing Property Development Co., Ltd.* (note) (珠海市駿景房地產開發有限公司)	RMB10,000,000	100%	—	100%	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shantou Logan Runjing Property Co., Ltd.* (note) (汕頭市龍光潤璟房地產有限公司)	RMB50,000,000	100%	—	100%	Property development
Nanning Logan Mingjun Property Development Co., Ltd.* (note) (南寧市龍光銘駿房地產開發有限公司)	RMB50,000,000	100%	—	100%	Property development
Shenzhen Logan Junjing Property Development Co., Ltd.* ^② ("Shenzhen Logan Junjing") (note) (深圳市龍光駿景房地產開發有限公司)	RMB20,400,000	50%	—	50%	Property development
Shenzhen Junteng Realty Co., Ltd.* (note) (深圳市駿騰置業有限公司)	RMB10,500,000	100%	—	100%	Property development
Zuhai Junchi Property Development Co., Ltd.* (note) (珠海市駿馳房地產開發有限公司)	RMB10,000,000	100%	—	100%	Property development
Shenzhen Logan Junfei Realty Co., Ltd.* (note) (深圳市龍光駿飛置業有限公司)	RMB10,000,000	100%	—	100%	Property development
Shenzhen Logan Junyu Property Development Co., Ltd.* (note) (深圳市龍光駿譽房地產開發有限公司)	RMB10,000,000	100%	—	100%	Property development
Huizhou Logan Junjing Property Co., Ltd.* (note) (惠州市龍光駿景房地產有限公司)	RMB10,000,000	100%	—	100%	Property development and investment
Huizhou Logan Jinjun Property Co., Ltd.* (note) (惠州市龍光金駿房地產有限公司)	RMB10,000,000	100%	—	100%	Property development
Beijing Runjing Property Development Co., Ltd.* (note) (北京潤璟房地產開發有限公司)	RMB5,000,000	100%	—	100%	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Nanning Yaohui Property Development Co., Ltd.* (note) (南寧市耀輝房地產開發有限公司)	RMB50,000,000	100%	—	100%	Property development
Shenzhen Logan Bojun Property Co., Ltd.* (note) (深圳市龍光鉞駿房地產有限公司)	RMB10,000,000	100%	—	100%	Property development
Shanghai Logan Property Co., Ltd.* (note) (上海市龍光房地產有限公司)	RMB10,000,000	100%	—	100%	Property development
Nanning Logan Jiarun Property Development Co., Ltd.* (note) (南寧市龍光佳潤房地產開發有限公司)	RMB50,000,000	100%	—	100%	Property development
Foshan Shanhu Electric Company Ltd.* (note) (佛山市山湖電器有限公司)	RMB170,637,644	100%	—	100%	Primary land development
Foshan Logan Junjing Property Co., Ltd.* [®] ("Foshan Logan Junjing") (note) (佛山市龍光駿景房地產有限公司)	RMB21,000,000	50%	—	50%	Property development
Huizhou Boshen Property Co., Ltd.* (note) (惠州市鉞紳房地產有限公司)	RMB10,000,000	51%	—	51%	Property development
Liuzhou Logan Mingjun Property Development Co., Ltd.* (note) (柳州市龍光銘駿房地產開發有限公司)	RMB102,040,000	100%	—	100%	Property development
Chengdu Zhonghui Investment Co., Ltd.* (note) (成都中暉投資有限公司)	RMB1,000,000	100%	—	100%	Property development
Shantou Logan Hongsheng Property Development Co., Ltd.* (note) (汕頭市龍光宏盛房地產有限公司)	RMB100,000,000	100%	—	100%	Property development

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiaries	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary	
Shantou Logan Junyu Property Development Co., Ltd.* (note) (汕頭市龍光駿譽房地產有限公司)	RMB100,000,000	100%	—	100%	Property development
Shantou Logan Hongbo Property Development Co., Ltd.* (note) (汕頭市龍光宏博房地產有限公司)	RMB100,000,000	100%	—	100%	Property development
Zhongshan Haixin Property Co., Ltd.* (note) (中山市海心置業有限公司)	RMB224,624,902	100%	—	100%	Property development

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

Registered as a wholly-foreign-owned enterprise under PRC law

® These entities are accounted for as subsidiaries of the Group because the Group owns more than half of the voting rights even though the equity interests in these entities attributable to the Group is 50%.

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments which have been measured at fair value.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

The Group applies HKFRS 9 and HKFRS 15 that require restatement of previous financial statements. Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and HKAS 40, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

- (a)** HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Upon the adoption of HKFRS 9, the Group's loans and receivables are reclassified as financial assets at amortised cost and there was no significant impact on the measurement of financial instruments on the financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECL").

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
(CONTINUED)

- (b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and they apply, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 6 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Note	Increase/ (decrease) RMB'000
Liabilities		
Trade and other payables	(i)	(19,614,745)
Contract liabilities	(i)	19,614,745
<hr/>		
Total liabilities		—

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	Amounts prepared under		
		HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Selling and marketing expenses		(1,231,356)	(1,334,709)	(103,353)
Profit before tax	(ii)	14,019,060	13,915,707	103,353
Income tax expense		(5,023,154)	(4,997,316)	25,838
Profit for the year		8,995,906	8,918,391	77,515
Attributable to:				
Owners of the parent		8,288,398	8,210,883	77,515
Non-controlling interests		707,508	707,508	—
		8,995,906	8,918,391	77,515
Earnings per share attributable to ordinary equity holders of the parent				
Basic (RMB cents)		147.95	146.53	1.42
Diluted (RMB cents)		145.69	144.30	1.39

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
(CONTINUED)

(b) (Continued)

Consolidated statement of financial position as at 31 December 2018:

	Note	Amounts prepared under		
		HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Trade and other receivables, prepayments and other assets	(ii)	37,816,369	37,713,016	103,353
Trade and other payables	(i)	47,449,771	64,234,650	(16,784,979)
Contract liabilities	(i)	16,784,879	—	16,784,879
Tax payable		4,559,087	4,533,249	25,838
Net assets		36,745,786	36,668,271	77,515
Retained profits		25,033,889	24,956,374	77,515
Total equity		36,745,786	36,668,271	77,515

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of the financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) **Consideration received from customers in advance**

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as trade and other payables. Under HKFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB19,614,745,000 from trade and other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB16,784,879,000 was reclassified from trade and other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of properties.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

(ii) Sales commission

Prior to the adoption of HKFRS 15, the Group expensed off the sales commission associated with obtaining agreement for sale and purchase with property buyer. Upon adoption of HKFRS 15, sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded as costs for obtaining contracts included in trade and other receivables, prepayments and other assets. Capitalised sales commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as selling and marketing expenses at that time.

As at 31 December 2018, under HKFRS 15, RMB103,353,000 was capitalised and recorded in trade and other receivables, prepayments and other assets in relation to the sales commission associated with obtaining agreement for the sale of properties.

- (c) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.
- (d) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements to 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases.

The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group expects to adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemption allowed by the standard on lease contracts whose lease term end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that the adoption of HKFRS 16 does not have any significant impact on the financial statements as a lessor.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendment to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Business combinations and goodwill (Continued)**

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development for sale, completed properties for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Related parties (Continued)**

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Other property, plant and equipment and depreciation

Other property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of other property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of other property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of other property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of other property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and other plant and equipment	3 to 10 years

Where parts of an item of other property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of other property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties held for development for sale

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

Properties under development for sale

Properties under development for sale are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties for sale.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Construction contracts (applicable before 1 January 2018)**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Investment properties

Investment properties include both completed investment properties and investment properties under construction.

Completed investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction costs, and stated at fair value, subsequent to initial recognition, at the end of the reporting period when the fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of a completed investment property or an investment property under construction are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment properties, any difference between the fair value of the property at the date of change in use and its then carrying amount is recognised in the statement of profit or loss.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial assets at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchase or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)****Subsequent measurement (Continued)***Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial asset are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)****Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)
(Continued)****General approach (Continued)**

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)****Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals, bank and other loans, senior notes and corporate bonds.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)****Subsequent measurement (Continued)**

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, bank and other loans and corporate bonds are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Senior notes

Senior notes issued by the Company that contain both liability and early redemption option (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the senior notes using the effective interest method.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)****Subsequent measurement (Continued)***Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Perpetual capital securities

Perpetual capital securities with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Income tax (Continued)**

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Revenue recognition (applicable from 1 January 2018)****Revenue from contracts with customers**

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of completed properties

Revenue from the sale of properties is recognised at the point in time when the purchasers obtained 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.

(b) Construction and decoration services

Revenue from the provision of construction and decoration services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction and decoration services.

(c) Provision of management services

Revenue from provision of management service is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(d) Land development

Revenue from land development is recognised at a point in time, when the customer obtains control of the assets and the Group has present right to payment and the collection of the consideration is probable.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Revenue recognition (applicable from 1 January 2018) (Continued)****Revenue from other sources**

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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

- (a) from the sale of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured;
- (b) from construction contracts, using the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" above;
- (c) from the rendering of services, when the services have been rendered;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Contract costs (applicable from 1 January 2018)***Cost to fulfil a contract*

Other than the costs which are capitalised as properties under development for sale and other property, plant and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Costs of obtaining contracts

Incremental costs of obtaining a contract were those costs that the Group incurs to obtain a contract with a customer it would not have incurred if the contract had not been obtained e.g., commission to sales agents. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("Equity-Settled Transactions").

The cost of Equity-Settled Transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of Equity-Settled Transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Share-based payments (Continued)**

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits**Pension schemes**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Other employee benefits (Continued)****Pension schemes (Continued)**

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to statement of profit or loss as they become payable in accordance with the rules of the Pension Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollars ("HK\$") while RMB is used as the presentation currency of the financial statements of the Company for the purpose of aligning with the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to statement of profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Foreign currencies (Continued)**

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries, joint ventures and associates operating outside the PRC are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determining the timing of satisfaction of contracts related to sale of properties

The Group determined that the sales contract with customers requires the Group to complete the development of property before transferring the legal title of the relevant property to customers. The Group also determined that the Group does not have an enforceable right to payment from customers for performance completed to date before the transfer of legal title of the relevant property to customers. Consequently, the Group concluded that the timing of transfer of properties is at the point of time that the purchasers obtained the physical possession or the legal title of the completed property.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for these portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sale included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES
(CONTINUED)****Judgements (Continued)****Allocation of construction cost on properties under development for sale**

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

Whether the presumption that investment properties stated at fair value are recovered through sale is rebutted in determining deferred tax

The Group has investment properties located in the PRC which are measured at fair value. Investment property is property held to earn rentals or for capital appreciation or both. In considering whether the presumption in HKAS 12 Income Taxes that an investment property measured at fair value will be recovered through sale is rebutted in determining deferred tax, the Group has developed certain criteria in making that judgement, such as whether an investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time or through sale. The presumption is rebutted only in the circumstance that there is sufficient evidence such as a historical transaction, future development plan and management's intention to demonstrate that the investment property is held with the objective to consume substantially all of the economic benefits over time, rather than through sale. Continuous assessments on the presumption will be made by management at each reporting date.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are, described below.

Valuation of properties under development for sale and completed properties for sale

Properties under development for sale and completed properties for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development for sale and completed properties for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Investments in joint ventures and associates

The Group has cooperated with certain third parties to engage in certain property development projects through the investments in and advances to joint ventures and associates. Significant estimation and judgement are required to assess the recoverability of the receivables from joint ventures and associates because the profitability of the future development of properties by the joint ventures and associates over a number of years can be difficult to predict and can be influenced by broader political and economic factors.

Estimation of fair value of investment properties

Investment properties, including completed investment properties and investment properties under construction, were revalued at each reporting date during the year based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each reporting date.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. The final outcome could be different from the amounts that were initially recorded.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Provision for expected credit losses on receivables from joint ventures and associates

The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, such as risk of default, loss given default and collateral recovery, changes in which can result in different levels of allowances.

The Group's expected credit loss ("ECL") calculations on receivables from joint ventures and associates are based on assumptions about risk of default and loss given default. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on credit risks of the debtors or comparable companies in the market, existing market conditions as well as forward looking estimates at the end of each reporting period. It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**Estimation uncertainty (Continued)****Provision for expected credit losses on receivables from joint ventures and associates (Continued)**

For other receivables already in place at 1 January 2018, the Group applies the general model for expected credit loss prescribed by HKFRS 9, since credit risk has not significantly increased after initial recognition, the loss allowance recognised was therefore limited to 12 months expected losses.

At 31 December 2018, the carrying amount of the Group's receivables from joint ventures and associates amounted to RMB36,876 million (2017: RMB25,266 million), and ECL is insignificant. Further details of the Group's receivables from joint ventures and associates, and the key assumptions and inputs used for impairment calculations are given in notes 17, 18 and 20 to the financial statements.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the property development segment develops and sells residential properties and retail shops;
- (b) the property leasing segment leases office units and retail shops to generate rental income and to gain from the appreciation in the properties' values in the long term;
- (c) the construction and decoration contracts segment engages in construction of office premises and residential buildings and provides decoration services for external customers and for group companies, and provides interior decoration services to property buyers; and
- (d) the primary land development segment engages in the sale of land held for development.

The Group's revenue from external customers from each operating segment is set out in note 6 to the financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that depreciation, other income and gains, other expenses, finance costs, share of profits or losses of joint ventures and associates, fair value gains or losses of investment properties and derivative financial instruments and head office and corporate income and expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Information regarding the reportable segments is presented below.

	Property development RMB'000	Property leasing RMB'000	Construction and decoration contracts RMB'000	Primary land development RMB'000	Total RMB'000
Year ended					
31 December 2018					
Gross revenue from external customers (note 6)	39,062,896	91,676	4,191,649	1,067,449	44,413,670
Less: Sales related taxes	(258,518)	(8,530)	(9,519)	(195)	(276,762)
Net revenue from external customers	38,804,378	83,146	4,182,130	1,067,254	44,136,908
Inter-segment revenue	—	37,421	10,000,602	—	10,038,023
Reportable segment revenue	38,804,378	120,567	14,182,732	1,067,254	54,174,931
Reportable segment profit	11,895,962	93,574	3,500,457	640,574	16,130,567
Year ended					
31 December 2017					
Gross revenue from external customers (note 6)	26,951,179	87,843	966,373	—	28,005,395
Less: Sales related taxes	(309,102)	(4,460)	(2,175)	—	(315,737)
Net revenue from external customers	26,642,077	83,383	964,198	—	27,689,658
Inter-segment revenue	—	24,241	4,844,974	—	4,869,215
Reportable segment revenue	26,642,077	107,624	5,809,172	—	32,558,873
Reportable segment profit	8,083,576	93,283	932,552	—	9,109,411

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about a major customer

During the years ended 31 December 2018 and 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Reconciliation of reportable segment revenue and profit or loss

	2018	2017
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	54,174,931	32,558,873
Elimination of inter-segment revenue	(10,038,023)	(4,869,215)
Consolidated revenue	44,136,908	27,689,658
Profit		
Reportable segment profit	16,130,567	9,109,411
Elimination of inter-segment profits	(3,201,660)	(865,450)
Reportable segment profit derived from the Group's external customers	12,928,907	8,243,961
Other income and gains	1,368,665	696,303
Other expenses	(56,655)	(10,056)
Depreciation	(57,295)	(64,421)
Finance costs	(1,416,943)	(672,154)
Share of profits and losses of associates	(42,958)	278,497
Share of losses of joint ventures	(141,431)	(73,097)
Net increase in fair value of investment properties	1,740,726	2,942,276
Net increase/(decrease) in fair value of derivative financial instruments	45,970	(113,214)
Unallocated head office and corporate expenses	(349,926)	(339,131)
Consolidated profit before tax	14,019,060	10,888,964

Geographic information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the segment assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

NOTES TO FINANCIAL STATEMENTS

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6. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of properties*	39,062,896	26,951,179
Construction and decoration income	4,191,649	966,373
Primary land development income	1,067,449	—
Revenue from other sources		
Gross rental income	91,676	87,843
	44,413,670	28,005,395
Less: Sales related taxes	(276,762)	(315,737)
	44,136,908	27,689,658

* The invoiced amount billed to buyers of properties was RMB41,771,393,000 (2017: RMB28,503,441,000) including value-added tax of RMB2,708,497,000 (2017: RMB1,552,262,000).

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	Sale of properties RMB'000	Construction and decoration income RMB'000	Primary land development income RMB'000	Total RMB'000
Timing of revenue recognition:				
Goods transferred at a point in time	38,804,378	—	1,067,254	39,871,632
Services transferred over time	—	4,182,130	—	4,182,130
Total revenue from contracts with customers	38,804,378	4,182,130	1,067,254	44,053,762

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

	Property development RMB'000	Construction and decoration contracts RMB'000	Primary land development RMB'000	Total RMB'000
Revenue from contracts with customers				
External customers	38,804,378	4,182,130	1,067,254	44,053,762
Intersegment sales	—	10,000,602	—	10,000,602
	38,804,378	14,182,732	1,067,254	54,054,364
Intersegment adjustments and eliminations	—	(10,000,602)	—	(10,000,602)
Total revenue from contracts with customers	38,804,378	4,182,130	1,067,254	44,053,762

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of properties	19,122,825
Construction income	240,814

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of properties

The performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

Construction and decoration income

The performance obligation is satisfied over time as services are rendered. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Primary land development income

The performance obligation is satisfied when the customer obtains control of the assets.

	Notes	2018 RMB'000	2017 RMB'000
Other income and gains			
Bank interest income		215,669	102,863
Interest income on amounts due from associates and joint ventures		798,298	478,934
Forfeiture income on deposits received		25,428	13,309
Government subsidies		6,760	8,735
Gain on deemed disposal of subsidiaries upon loss of control, net	35(b)	188,368	36,128
Gains on remeasurement of pre-existing interests in joint ventures to the date of obtaining control and acquisition	34(b)	47,384	—
Gains on bargain purchase	34(b)	38	—
Foreign exchange differences, net		—	21,374
Others		86,720	34,960
		1,368,665	696,303

7. OTHER EXPENSES

	2018 RMB'000	2017 RMB'000
Charitable donations	42,394	4,072
Foreign exchange differences, net	14,074	—
Net loss on disposal of items of other property, plant and equipment	3	65
Others	184	5,919
	56,655	10,056

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank and other loans and other borrowing costs	1,339,967	1,246,238
Interest on senior notes	881,605	680,162
Interest on corporate bonds	975,814	615,117
Total interest expense on financial liabilities not at fair value through profit or loss	3,197,386	2,541,517
Less: Interest capitalised	(1,780,443)	(1,869,363)
	1,416,943	672,154

NOTES TO FINANCIAL STATEMENTS

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9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 RMB'000	2017 RMB'000
Cost of properties sold		24,996,099	17,329,719
Cost of services provided		4,253,916	842,756
Depreciation	15	62,423	67,105
Less: Amount capitalised		(5,128)	(2,684)
		57,295	64,421
Minimum lease payments under operating leases for land and buildings		17,339	15,486
Auditor's remuneration		6,360	6,800
Employee benefit expenses (including directors' remuneration (note 10)):			
Salaries and other staff costs		1,113,402	977,661
Equity-settled share option expense		20,963	14,237
Pension scheme contributions		79,311	65,524
Less: Amount capitalised		(377,683)	(334,398)
		835,993	723,024
Foreign exchange differences, net [^]		14,074	(21,374)
Gain on deemed disposal of subsidiaries upon loss of control, net [^]	35(b)	(188,368)	(36,128)
Net loss on disposal of items of other property, plant and equipment*	7	3	65
Gains on remeasurement of pre-existing interests in joint ventures to the date of obtaining control and acquisition [^]	34(b)	(47,384)	—
Gains on bargain purchase [^]	34(b)	(38)	—

[^] The amounts are included in "Other income and gains" in the consolidated statement of profit or loss.

* The amounts are included in "Other expenses" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018	2017
	RMB'000	RMB'000
Fees	3,582	3,250
Other emoluments:		
Salaries, allowances and benefits in kind	21,263	21,942
Discretionary performance related bonuses	38,846	40,639
Equity-settled share option expense	8,346	3,674
Retirement scheme contributions	327	295
	68,782	66,550
	72,364	69,800

During the year and in prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

10. DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of each of the directors is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2018						
Executive Directors:						
Kei Hoipang ("Mr. Kei", also act as the Chairman of the Group)	—	8,000	12,568	3,085	75	23,728
Ji Jiande	—	5,501	13,424	2,449	75	21,449
Xiao Xu	—	3,001	4,194	1,076	78	8,349
Lai Zhuobin	—	3,001	4,947	1,068	78	9,094
Chen Guanzhan*	—	1,760	—	—	5	1,765
Non-executive Director:						
Kei Perenna Hoi Ting ("Ms. Kei")	2,400	—	3,713	668	16	6,797
Independent non-executive Directors:						
Zhang Huaqiao	394	—	—	—	—	394
Liu Ka Ying, Rebecca	394	—	—	—	—	394
Cai Suisheng	394	—	—	—	—	394
	3,582	21,263	38,846	8,346	327	72,364
2017						
Executive Directors:						
Mr. Kei	—	7,754	12,860	1,412	73	22,099
Ji Jiande	—	5,085	13,548	1,065	73	19,771
Xiao Xu	—	2,751	5,075	482	74	8,382
Lai Zhuobin	—	2,751	4,377	453	75	7,656
Chen Guanzhan*	—	3,601	—	34	—	3,635
Non-executive Director:						
Ms. Kei	2,248	—	4,779	228	—	7,255
Independent non-executive Directors:						
Zhang Huaqiao	334	—	—	—	—	334
Liu Ka Ying, Rebecca	334	—	—	—	—	334
Cai Suisheng	334	—	—	—	—	334
	3,250	21,942	40,639	3,674	295	69,800

* Mr. Chen Guanzhan was appointed as an executive director of the Company with effect from 17 July 2017 and resigned as an executive director of the Company with effect from 29 January 2018.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2017: three directors), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	6,002	5,536
Discretionary bonuses	10,515	11,490
Share-based payments	2,050	1,743
Retirement scheme contributions	115	73
	18,682	18,842

The emoluments of the two (2017: two) individuals who are neither a director nor chief executive of the Company with the highest emoluments are within the following bands:

	Number of employees	
	2018	2017
HK\$9,500,001 to HK\$10,000,000	1	—
HK\$10,500,001 to HK\$11,000,000	—	1
HK\$11,000,001 to HK\$11,500,000	1	—
HK\$11,500,001 to HK\$12,000,000	—	1
	2	2

No individual waived or agreed to waive any emoluments during the year.

During the year and in prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

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12. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the Group's subsidiaries operate.

	2018	2017
	RMB'000	RMB'000
Current charge for the year:		
PRC CIT	3,108,577	1,910,435
PRC LAT	1,731,850	1,454,355
Dividend withholding tax	210,000	—
(Overprovision)/underprovision in prior years, net:		
PRC CIT	(9,857)	64,228
	5,040,570	3,429,018
Deferred (note 28)	(17,416)	451,496
	5,023,154	3,880,514

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2018	2017
	RMB'000	RMB'000
Profit before tax	14,019,060	10,888,964
At the statutory/applicable rates of different jurisdictions	3,517,808	2,737,627
Adjustments in respect of current tax of previous periods	(9,857)	64,228
Income not subject to tax	(47,345)	(57,094)
Expenses not deductible for tax	91,450	42,616
Effect of withholding tax at prevailing tax rate on the distributable profits of the Group's PRC subsidiaries	210,000	—
Tax losses utilised from previous periods	(85,937)	—
Tax losses not recognised	48,147	2,371
LAT	1,731,850	1,454,355
Tax effect of LAT deductible for PRC CIT	(432,962)	(363,589)
	5,023,154	3,880,514

No share of tax charge for the year ended 31 December 2018 was attributable to associates. The share of tax charge for the year ended 31 December 2017 attributable to an associate amounting to RMB98,323,000 is included in "Share of profits of associates" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

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13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim and special dividends — HK20 cents and HK8 cents respectively (2017: HK19 cents and HK3 cents) per ordinary share	1,346,229	1,010,458
Proposed final and special dividends — HK40 cents and HK7 cents respectively (2017: HK17 cents and HK2 cents) per ordinary share	2,210,076	842,076
	3,556,305	1,852,534

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, adjusted for the distribution related to perpetual capital securities, and the weighted average number of ordinary shares of 5,490,496,000 (2017: 5,495,128,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the parent, adjusted for the distribution related to perpetual capital securities. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to owners of the parent	8,288,398	6,527,400
Distribution related to perpetual capital securities	(165,434)	(96,503)
Profit used in the basic and diluted earnings per share calculations	8,122,964	6,430,897
	Number of shares	
	2018 '000	2017 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	5,490,496	5,495,128
Effect of dilution — weighted average number of ordinary shares: Share options	84,912	77,848
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	5,575,408	5,572,976

NOTES TO FINANCIAL STATEMENTS

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15. OTHER PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and other plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018					
At 31 December 2017 and 1 January 2018:					
Cost	42,598	191,184	194,102	1,645	429,529
Accumulated depreciation	(14,772)	(119,907)	(146,983)	—	(281,662)
Net carrying value	27,826	71,277	47,119	1,645	147,867
At 1 January 2018, net of accumulated depreciation					
	27,826	71,277	47,119	1,645	147,867
Additions	—	27,798	24,221	—	52,019
Acquisition of subsidiaries (note 34)	—	—	41,808	—	41,808
Depreciation	(2,180)	(38,456)	(21,787)	—	(62,423)
Disposals	(452)	—	115	(1,645)	(1,982)
Deemed disposal of subsidiaries (note 35(b))	—	—	(632)	—	(632)
Exchange realignment	—	216	(859)	—	(643)
At 31 December 2018, net of accumulated depreciation	25,194	60,835	89,985	—	176,014
At 31 December 2018:					
Cost	41,683	219,185	257,591	—	518,459
Accumulated depreciation	(16,489)	(158,350)	(167,626)	—	(342,445)
Net carrying value	25,194	60,835	89,965	—	176,014

NOTES TO FINANCIAL STATEMENTS

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15. OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and other plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017:					
Cost	42,598	181,061	178,483	—	402,142
Accumulated depreciation	(12,598)	(88,346)	(116,881)	—	(217,825)
Net carrying value	30,000	92,715	61,602	—	184,317
At 1 January 2017, net of					
accumulated depreciation	30,000	92,715	61,602	—	184,317
Additions	—	9,943	24,699	1,645	36,287
Acquisition of subsidiaries (note 34)	—	1,200	—	—	1,200
Depreciation	(2,174)	(31,615)	(33,316)	—	(67,105)
Disposals	—	(488)	(3,217)	—	(3,705)
Deemed disposal of subsidiaries upon loss of control (note 35(b))	—	—	(1,400)	—	(1,400)
Exchange realignment	—	(478)	(1,249)	—	(1,727)
At 31 December 2017, net of accumulated depreciation	27,826	71,277	47,119	1,645	147,867
At 31 December 2017:					
Cost	42,598	191,184	194,102	1,645	429,529
Accumulated depreciation	(14,772)	(119,907)	(146,983)	—	(281,662)
Net carrying value	27,826	71,277	47,119	1,645	147,867

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16. INVESTMENT PROPERTIES

	Completed	Under construction	Total
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January 2017	6,364,578	5,526,301	11,890,879
Additions	108,835	363,653	472,488
Acquisition of subsidiaries (note 34)	106,729	—	106,729
Disposals	(20,616)	—	(20,616)
Transfer from properties under development for sale	224,654	—	224,654
Transfer from completed properties for sale	81,236	—	81,236
Transfer upon completion of construction	890,941	(890,941)	—
Net gain from a fair value adjustment	1,147,950	1,794,326	2,942,276
Exchange realignment	(32,816)	—	(32,816)
Carrying amount at 31 December 2017 and 1 January 2018	8,871,491	6,793,339	15,664,830
Additions	301,685	604,829	906,514
Transfer upon completion of construction	2,632,413	(2,632,413)	—
Net gain from a fair value adjustment	1,137,543	603,183	1,740,726
Exchange realignment	25,941	—	25,941
Carrying amount at 31 December 2018	12,969,073	5,368,938	18,338,011

The Group's investment properties were revalued on 31 December 2018 based on valuations performed by APAC Asset Valuation and Consulting Limited and Vocation (Beijing) International Assets Appraisal Co., Ltd., independent professionally qualified valuers, at RMB18,338,011,000 (2017: RMB15,664,830,000).

At 31 December 2018, certain of the Group's investment properties were pledged to secure certain bank and other loans granted to the Group (note 38).

The Group's completed investment properties are leased to third parties under operating leases, further summary details of which are included in (note 39(a)).

Fair value hierarchy

For the years ended 31 December 2018 and 2017, the fair value measurements of all investment properties of the Group were categorised within Level 3 of the fair value hierarchy and details of their movements are disclosed above.

In the opinion of the directors, for all investment properties that are measured at fair value, the properties have been used in their highest and best use.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

16. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

The following table illustrates the fair value measurement of the Group's investment properties:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2018 RMB'000	2017 RMB'000
Recurring fair value measurement for:		
Leasehold land — Hong Kong	1,557,226	626,932
Commercial — Mainland China	11,411,847	8,244,559
Investment properties under development	5,368,938	6,793,339
	18,338,011	15,664,830

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range	
			2018	2017
Investment properties				
— Leasehold land — Hong Kong	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	241,326–245,473	230,077–249,530
— Commercial — Mainland China	Direct comparison approach	Market unit sale rate (RMB/sq.m.)	16,676–150,380	9,020–122,443
— Commercial — Mainland China	Income approach	Risk-adjusted discount rate	3.3% to 5%	2.1% to 3.3%
		Expected market rental growth	2% to 10%	3.33% to 10%
		Expected occupancy rate	95% to 100%	85% to 100%
		Expected yearly unit rental income (RMB/sq.m.)	260–2,292	252–2,294
		Capitalisation rate	3.5% to 6.5%	3.5% to 7.0%
Investment properties under construction	Residual approach	Development profit	20%	20% to 30%
		Risk-adjusted discount rate	4.35% to 8%	4.75%

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31 December 2018

16. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

The valuations of completed investment properties were based on either the income approach by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties, which is positively correlated to the market rental growth rate, and negatively correlated to risk-adjusted discount rate, or the direct comparison method by reference to comparable market transactions, which is positively correlated to the market unit sale rate.

The valuations of investment properties under construction were based on the residual approach, and have taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development on the basis that the properties will be developed and completed in accordance with the Group's latest development plan. The valuations of investment properties under construction are positively correlated to the development profit and negatively correlated to the capitalisation rate.

17. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	537,180	153,386
Due from an associate	910,000	2,500,000
	1,447,180	2,653,386

Note: As at 31 December 2018, the amount due from an associate is unsecured, bearing interest at fixed interest rate of 7.98% (2017: 5.8%) per annum and repayable in 2021 (2017: 2019).

The particulars of material associates, which are unlisted corporate entities, are as follows:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of registered/paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Shenzhen Kaifeng Industrial Co., Ltd. ("Shenzhen Kaifeng") (note) (深圳市凱豐實業有限公司)	Incorporated	The PRC	Registered capital RMB15,000,000	50%	—	50%	Property development
Delight Prime Limited ("Delight Prime") (悦盛有限公司)	Incorporated	BVI	Paid-up capital US\$50,000	20%	—	20%	Property development

Note: The English translation of the name is for reference only. The official name of the entity is in Chinese.

The directors consider that the Group can only exercise significant influence over Shenzhen Kaifeng and Delight Prime based on their board composition, and accordingly they are classified as associates of the Group. The associates are accounted for using the equity method in the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

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17. INVESTMENTS IN ASSOCIATES (CONTINUED)

Amount due from an associate represented an interest-bearing loan granted to an associate. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied was 41.03% and the loss given default was approximately 0%.

Summarised financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2018	2017
	RMB'000	RMB'000
Gross amounts of Shenzhen Kaifeng		
Current assets	16,794,752	14,609,288
Non-current assets	3,768,356	3,106,283
Current liabilities	(15,361,935)	(12,155,513)
Non-current liabilities	(4,616,561)	(4,923,428)
Equity	584,612	636,630
Revenue	—	—
(Loss)/profit for the year	(52,108)	558,184
Other comprehensive income for the year	—	—
Total comprehensive (loss)/income for the year	(52,108)	558,184
Reconciled to the Group's interest in Shenzhen Kaifeng		
Gross amounts of net assets of Shenzhen Kaifeng	584,612	636,630
Group's effective interest	50%	50%
Group's share of net assets of Shenzhen Kaifeng	292,306	318,315
Elimination of interest income	(227,605)	(142,418)
Elimination of other downstream transaction	(25,538)	(24,917)
Amount due from Shenzhen Kaifeng	—	2,500,000
Carrying amount in the consolidated financial statements	39,163	2,650,980

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17. INVESTMENTS IN ASSOCIATES (CONTINUED)

	2018 RMB'000
Gross amounts of Delight Prime	
Current assets	4,426,295
Non-current assets	19,903
Current liabilities	(2,901,168)
Equity	1,545,030
Revenue	—
Loss for the year	(13,649)
Other comprehensive loss for the year	—
Total comprehensive loss for the year	(13,649)
Reconciled to the Group's interest in Delight Prime	
Gross amounts of net assets of Delight Prime	1,545,030
Group's effective interest	20%
Group's share of net assets of Delight Prime	309,006
Elimination of other downstream transaction	(7,376)
Amount due from Delight Prime	910,000
Carrying amount in the consolidated financial statements	1,211,630

All associates have been accounted for using the equity method in these financial statements and their financial year end dates are coterminous with that of the Group.

The following table illustrates the financial information of the Group's other associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' loss and total comprehensive loss for the year	(14,219)	(595)
Aggregate carrying amount of the Group's investments in the associates	196,387	2,406

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18. INVESTMENTS IN JOINT VENTURES

	2018	2017
	RMB'000	RMB'000
Share of net assets	6,679,464	1,147,949
Due from joint ventures	11,363,109	8,113,964
	18,042,573	9,261,913

Note: As at 31 December 2018, all amounts due from joint ventures are unsecured, bear interest at floating or fixed interest rate ranging from 3.4% to 7.30% (2017: ranging from 3.4% to 5.8%) per annum and mature from two to three years.

To address increasing land premium in public bidding, the Group started in 2016 to secure land by teaming up with resourceful joint venture partners. These joint ventures are engaged in urban development projects in Shenzhen and the nearby cities.

Details of the Group's interests in the principal joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Shenzhen Yingrui Industrial Co., Ltd. ("Shenzhen Yingrui") (note) (深圳市盈睿實業有限公司)	Incorporated	The PRC	Registered capital RMB10,000,000	50%	—	50%	Investment holding
LN Development (STIRLING) PTE. LTD	Incorporated	Singapore	Registered capital SG\$4,000,000	51%	—	51%	Property investment
Shenzhen Huiyi Investment Co., Ltd. ("Shenzhen Huiyi") (note) (深圳市惠益投資有限公司)	Incorporated	The PRC	Registered capital RMB10,000,000	50%	—	50%	Investment holding
Shenzhen Yurongshun Industrial Co., Ltd. (note) (深圳市裕榮順實業有限公司)	Incorporated	The PRC	Registered capital RMB10,000,000	50%	—	50%	Investment holding
Shantou Logan Hongjing Property Co., Ltd. ("Shantou Hongjing") (note) (汕頭市龍光宏璟房地產有限公司)	Incorporated	The PRC	Registered capital RMB100,000,000	50%	—	50%	Property development
Unicorn Bay Limited ("Unicorn Bay") (麒麟灣有限公司)	Incorporated	BVI	Paid-up capital US\$50,000	50%	50%	—	Investment holding

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

The Group shares control in the above entities with other shareholders, accordingly they are classified as joint ventures of the Group. All the joint ventures in which the Group held interest are unlisted corporate entities whose quoted market prices are not available.

Amounts due from joint ventures represented interest-bearing loans granted to joint ventures. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied was 0.68% and the loss given default was approximately 0%.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the material joint ventures, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	2018 RMB'000
Gross amounts of Shantou Hongjing	
Cash and cash equivalents	41,110
Current assets	5,093,084
Non-current assets	606
Trade and other payables	(2,718,919)
Current liabilities (excluding trade and other payables)	(449,713)
Non-current liabilities	(1,898,480)
Equity	67,688
Revenue	—
Loss for the year	(32,160)
Other comprehensive loss for the year	—
Total comprehensive loss for the year	(32,160)
Reconciled to the Group's interest in Shantou Hongjing	
Gross amounts of net assets of Shantou Hongjing	67,688
Group's effective interest	50%
Group's share of net assets of Shantou Hongjing	33,844
Elimination of interest income	(13,392)
Elimination of other downstream transaction	(18,186)
Amount due from the joint venture	1,190,000
Carrying amount in the consolidated financial statements	1,192,266

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18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

	2018 RMB'000	2017 RMB'000
Gross amounts of Shenzhen Yingrui		
Cash and cash equivalents	859	21
Current assets	4,562,559	2,155,590
Non-current assets	7,237	29,516
Trade and other payables	(4,728,402)	(1,474,674)
Non-current liabilities	—	(800,000)
Equity	(157,747)	(89,547)
Revenue	—	—
Loss for the year	(68,200)	(1,726)
Other comprehensive loss for the year	—	—
Total comprehensive loss for the year	(68,200)	(1,726)
Reconciled to the Group's interest in Shenzhen Yingrui		
Gross amounts of net liabilities of Shenzhen Yingrui	(157,747)	(89,507)
Group's effective interest	50%	50%
Group's share of net liabilities of Shenzhen Yingrui (note)	—	(2)
Elimination of interest income	—	2
Amount due from the joint venture	1,700,000	1,000,000
Carrying amount in the consolidated financial statements	1,700,000	1,000,000

Note: The share of net liabilities of Shenzhen Yingrui does not include the share of accumulated losses exceeding the investment made by the Group amounting to RMB77,128,000 (2017: RMB43,028,000).

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18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

	2018 RMB'000	2017 RMB'000
Gross amounts of Unicorn Bay		
Cash and cash equivalents	16,574	4,561
Current assets	15,684,655	14,114,731
Non-current assets	161,688	94
Trade and other payables	(552,424)	(8,125,624)
Current liabilities (excluding trade and other payables)	—	(6,269,535)
Non-current liabilities	(6,228,659)	—
Equity	9,081,834	(275,773)
Revenue	—	—
Loss for the year	(7,877)	(275,773)
Other comprehensive loss for the year	—	—
Total comprehensive loss for the year	(7,877)	(275,773)
Reconciled to the Group's interest in Unicorn Bay		
Gross amounts of equity/(net liabilities) of Unicorn Bay	9,081,834	(275,773)
Group's effective interest	50%	50%
Group's share of equity of Unicorn Bay (note)	4,540,917	—
Amount due from the joint venture	483,043	4,057,114
Carrying amount in the consolidated financial statements	5,023,960	4,057,114

Note: During the year ended 31 December 2017, the share of net liabilities of Unicorn Bay did not include the share of accumulated losses exceeding the investment made by the Group amounting to RMB137,887,000.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of joint ventures' loss for the year, net	(125,351)	(68,091)
Share of the joint ventures' other comprehensive loss for the year	—	—
Share of the joint ventures' total comprehensive loss for the year	(125,351)	(68,091)
Aggregate carrying amount of the Group's investments in the joint ventures	10,126,347	3,004,799

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19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Construction:		
Raw materials	200,232	43,802
Property development:		
Properties held for development for sale	26,047,401	5,114,830
Properties under development for sale	20,277,085	25,504,340
Completed properties for sale	8,255,980	7,794,767
	54,580,466	38,413,937
	54,780,698	38,457,739
Properties expected to be recovered within normal operating cycle:		
Within one year	16,917,665	12,204,332
After one year	37,662,801	26,209,605
	54,580,466	38,413,937

All the completed properties held for sale are stated at the lower of cost and net realisable value.

At 31 December 2018, certain of the Group's properties held for development for sale, properties under development for sale and completed properties for sale were pledged to secure certain bank and other loans granted to the Group (note 38).

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

	Notes	2018 RMB'000	2017 RMB'000
Trade receivables	(i)	18,214	486,042
Prepayments and other receivables	(vii)	8,175,454	3,929,825
Land deposits	(ii)	3,046,119	1,230,892
Amounts due from related companies	(iii)	181,658	130,751
Amounts due from non-controlling shareholders	(iii)	1,623,294	—
Amounts due from associates	(iv)	5,911,652	3,606,723
Amounts due from joint ventures	(v)	18,691,077	11,045,375
Costs of obtaining contracts	(vi)	103,353	—
Derivative financial instruments:			
Senior notes redemption call options (note 26(xiv))		65,548	18,678
		37,816,369	20,448,286

NOTES TO FINANCIAL STATEMENTS

31 December 2018

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS (CONTINUED)

Notes:

- (i) The Group's trade receivables arise from the sale of properties, leasing of investment properties and provision of construction services.

Consideration in respect of properties is payable by the purchasers in accordance with the terms of the related sale and purchase agreements. The Group normally requires its customers to make payment of monthly/quarterly charges in advance in relation to the leasing of investment properties and provision of property management services.

Since the Group's trade receivables are related to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. All trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date or invoice date and net of loss allowance, is as follows:

	2018	2017
	RMB'000	RMB'000
Current to 30 days	488	317,566
31 days to 90 days	8,190	800
91 to 180 days	1,057	138,454
181 to 365 days	8,375	27,990
Over 365 days	104	1,232
	18,214	486,042

Impairment under HKFRS 9 for the year ended 31 December 2018

The financial impact of expected credit losses for trade receivables under HKFRS 9 is insignificant for the year ended 31 December 2018.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017
	RMB'000
Neither past due nor impaired	456,820
Less than 90 days past due	27,990
181 days to 365 days past due	1,232
	486,042

Receivables that were past due but not impaired had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

- (ii) The amounts represented deposits for the acquisition of land.
- (iii) The amounts due from related companies and non-controlling shareholders are unsecured, interest-free and repayable on demand.
- (iv) Except for the amount of RMB2,490 million (2017: Nil) which is unsecured, bearing interest at 6.88% per annum and repayable in 2019, other amounts due from associates are unsecured, interest-free and repayable on demand.

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31 December 2018

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS (CONTINUED)

Notes: (Continued)

- (v) Except for the amounts of RMB862 million (2017: Nil) which are unsecured, bearing interest ranging from 4.79% to 5.35% per annum and repayable in 2019, other amounts due from joint ventures are unsecured, interest-free and repayable on demand.
- (vi) The amount represents prepaid agency fees in connection with the sale of properties.
- (vii) The financial impact of expected credit losses for financial assets stated at amortised cost included in prepayments and other receivables amounting to RMB2,736 million (2017: RMB1,206 million) under HKFRS 9 was insignificant for the year ended 31 December 2018.

21. ASSETS AND LIABILITIES UNDER CROSS-BORDER GUARANTEE ARRANGEMENTS

During 2018 and 2017, the Group entered into some cross-border guarantee arrangements with certain financial institutions, whereby certain onshore funding (i.e. in the PRC) has been used as a pledge against advances to offshore (i.e. in Hong Kong) for the Group's general working capital.

Pursuant to these arrangements which are made in compliance with the relevant rules and regulations promulgated by the State Administration of Foreign Exchange, funds are advanced to the Group's subsidiaries in Hong Kong by depositing a certain amount of funds in the relevant financial institutions by the Group's subsidiaries in the PRC. The net cost of such arrangements is less than 1% per annum of the total funds advanced.

	2018	2017
	RMB'000	RMB'000
Assets under cross-border guarantee arrangements	2,353,657	1,745,380
Portion classified as current assets	(1,827,322)	(1,745,380)
Non-current portion	526,335	—
Liabilities under cross-border guarantee arrangements	3,041,568	1,745,380
Portion classified as current liabilities	(2,515,233)	(1,745,380)
Non-current portion	526,335	—

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22. CASH AND CASH EQUIVALENTS AND RESTRICTED AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	35,717,151	22,407,985
Less: Restricted deposits (note (a))	(6,677,732)	(1,726,734)
Pledged deposits (notes (b), (c))	(586,957)	(803,059)
Cash and cash equivalents	28,452,462	19,878,192

Notes:

- (a) Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sales proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. The deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificates of the properties, whichever is the earlier. As at 31 December 2018, such guarantee deposits amounted to RMB6,677,732,000 (2017: RMB1,726,734,000).
- (b) According to the relevant mortgage facility agreements signed by certain subsidiaries of the Group with their banks, the subsidiaries are required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. Such guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2018, such deposits amounted to RMB328,786,000 (2017: RMB578,438,000).
- (c) As at 31 December 2018, certain bank deposits of the Group were pledged to secure certain bank and other loans granted to the Group (note 38).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB31,603,370,000 (2017: RMB17,009,002,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Non-pledged time deposits are made for varying periods of between seven days and six months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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23. TRADE AND OTHER PAYABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade payables	(i)	12,503,788	7,304,745
Other payables and accrued charges	(ii)	7,117,016	2,904,694
Customer deposits received		41,630	68,421
Rental and other deposits received		112,012	86,563
Receipts in advance	(iii)	—	19,614,745
Proceeds from asset-backed securities	(iv)	1,594,890	1,570,128
Amounts due to non-controlling shareholders	(v)	10,684,550	—
Amounts due to related companies	(vi)	14,250	7,401
Amounts due to joint ventures	(vii)	15,378,135	5,719,091
Amounts due to associates	(viii)	3,500	—
		47,449,771	37,275,788

Notes:

- (i) An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Current to 30 days	3,512,217	2,385,566
31 to 90 days	2,719,421	757,914
91 to 180 days	1,411,230	383,827
181 to 365 days	2,805,100	2,435,913
Over 365 days	2,055,820	1,341,525
	12,503,788	7,304,745

The trade payables are non-interest-bearing.

- (ii) Other payables are non-interest-bearing and are expected to be settled within one year.
- (iii) Receipts in advance represent sales proceeds received from buyers in connection with the Group's pre-sales of properties. The balance was reclassified to contract liabilities upon the adoption of HKFRS 15.
- (iv) The balance represented proceeds, deduction of certain percentage of upfront fee, received from a specific purpose entity ("SPE") set up by a financial institution in the PRC for the issuance of asset-backed securities, to which the Group has transferred the right of receipt of the remaining sale proceeds of certain properties to be delivered by the Group. Under an assignment arrangement between the Group and the SPE, as and when the Group receives the sale proceeds from customers, the Group would remit to the holder of the asset-backed securities any cash flows it collects on behalf of the SPE.
- (v) The amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand, except for amounts of RMB94,000,000 (2017: Nil) as at 31 December 2018 which bear interest at fixed interest rate ranging from 5.7% to 7.0% (2017: Nil) per annum.
- (vi) The amounts due to related companies are unsecured, interest-free and repayable on demand.
- (vii) The amounts due to joint ventures are unsecured, interest-free and repayable on demand, except for an amount of RMB7,542,163,000 (2017: Nil) which is repayable in December 2019.
- (viii) The amounts due to associates are unsecured, interest-free and repayable on demand.

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24. CONTRACT LIABILITIES

Contract liabilities mainly represent sales proceeds received from buyers in connection with the Group's pre-sales of properties. The decrease in balance was mainly due to addition of contracted sales during the year and an amount of RMB8,698 million recognised in relation to acquisition of subsidiaries that are a business, partially offset by the delivery of properties in the current year.

25. BANK AND OTHER LOANS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	4.83–8.68	2019	2,024,692	4.75–7.95	2018	1,066,000
Bank loans – unsecured	4.13–8.50	2019	4,554,600	2.19–5.80	2018	1,670,285
Other loans – secured	6.50–10.13	2019	1,325,600	6.93–8.68	2018	1,064,400
Other loans – unsecured	4.99–8.40	2019	1,672,200	8.00–8.40	2018	1,797,200
			9,577,092			5,597,885
Non-current						
Bank loans – secured	5.24–8.50	2020–2021	2,186,900	3.52–7.95	2019–2026	9,142,470
Bank loans – unsecured	3.06–8.50	2020–2023	7,004,670	3.11–5.80	2019–2020	1,988,965
Other loans – secured	6.41–8.00	2020	565,700	6.50–8.68	2019–2022	1,430,000
Other loans – unsecured	7.55–10.90	2020	2,209,700	4.99–5.70	2019	1,630,000
			11,966,970			14,191,435
			21,544,062			19,789,320

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25. BANK AND OTHER LOANS (CONTINUED)

	2018	2017
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	6,579,292	2,736,285
In the second year	2,028,080	6,715,376
In the third to fifth years, inclusive	7,163,490	4,249,329
Beyond five years	—	166,730
	15,770,862	13,867,720
Other loans repayable:		
Within one year	2,997,800	2,861,600
In the second year	2,775,400	2,590,000
In the third to fifth years, inclusive	—	470,000
	5,773,200	5,921,600
	21,544,062	19,789,320

Notes:

- (a) Certain of the Group's bank and other loans are secured by the Group's equity interests in certain subsidiaries, bank deposits, land and buildings, investment properties, properties held for development for sale, properties under development for sale and completed properties for sale and other receivables, details of which are disclosed in note 38 to the financial statements.
- (b) Except for certain bank and other loans of RMB3,403,248,000 (2017: RMB2,205,131,000) and RMB3,683,677,000 (2017: Nil) as at 31 December 2018 which were denominated in HK\$ and Singapore dollars ("SG\$"), respectively, all of the Group's bank and other loans were denominated in RMB.

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26. SENIOR NOTES

	Effective interest rate (% per annum)	31 December 2018 RMB'000	31 December 2017 RMB'000
US\$260m Senior Notes (notes (i), (xiv))	7.91	1,839,031	1,749,499
US\$200m Senior Notes (notes (ii), (xiv))	5.80	1,357,860	1,294,182
US\$450m Senior Notes (notes (iii), (xiv))	5.42	3,023,365	2,880,422
US\$256m Senior Notes (notes (iv))	5.19	—	1,664,865
US\$200m Senior Notes due 2018 (note (v))	5.45	—	1,300,676
US\$250m Senior Notes (notes (vi), (xiv))	6.75	1,720,840	—
SG\$200m Senior Notes (notes (vii), (xiv))	6.60	1,003,312	—
US\$300m Senior Notes (notes (viii), (xiv))	7.32	2,045,408	—
US\$100m Senior Notes (notes (ix), (xiv))	7.62	677,384	—
US\$300m Senior Notes due 2021 (notes (x), (xiv))	8.05	2,062,713	—
US\$80m Senior Notes (notes (xi), (xiv))	9.74	526,979	—
US\$370m Senior Notes (notes (xii), (xiv))	9.20	2,507,775	—
		16,764,667	8,889,644
Portion classified as current liabilities (note (xiii))		—	(2,965,541)
		16,764,667	5,924,103

Notes:

- (i) On 19 January 2016, the Company issued senior notes with a principal amount of US\$260,000,000 due in 2020 (the "US\$260m Senior Notes"). The senior notes are interest bearing at 7.70% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 19 January 2020. At any time and from time to time on or after 19 January 2019, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (ii) On 3 January 2017, the Company issued senior notes with a principal amount of US\$200,000,000 due in 2022 (the "US\$200m Senior Notes"). The senior notes are interest bearing at 5.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 3 January 2022. At any time and from time to time on or after 3 January 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (iii) On 23 May 2017, the Company issued senior notes with a principal amount of US\$450,000,000 due in 2023 (the "US\$450m Senior Notes"). The senior notes are interest bearing at 5.25% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 23 February 2023. At any time and from time to time on or after 23 May 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (iv) On 3 November 2017, the Company issued senior notes with a principal amount of US\$256,000,000 due in 2018 (the "US\$256m Senior Notes"). The senior notes are interest bearing at 5.125% per annum which is payable semi-annually in arrears. The maturity date of the senior notes was 2 November 2018. At any time and from time to time on or after 3 November 2017, the Company might at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum. In October 2018, the Company redeemed the US\$256m Senior Notes in full upon maturity at a redemption price equal to the principal amount thereof, being US\$256,000,000, plus accrued and unpaid interest of US\$6,524,000.

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26. SENIOR NOTES (CONTINUED)

Notes: (Continued)

- (v) On 4 December 2017, the Company issued senior notes with a principal amount of US\$200,000,000 due in 2018 (the "US\$200m Senior Notes due 2018"). The senior notes are interest bearing at 5.375% per annum which is payable semi-annually in arrears. The maturity date of the senior notes was 3 December 2018. At any time and from time to time on or after 4 December 2017, the Company might at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum. In November 2018, the Company redeemed the US\$200m Senior Notes due 2018 in full upon maturity at a redemption price equal to the principal amount thereof, being US\$200,000,000, plus accrued and unpaid interest of US\$5,345,000.
- (vi) On 7 March 2018, the Company issued senior notes with a principal amount of US\$250,000,000 due in 2021 ("US\$250m Senior Notes"). The senior notes are interest bearing at 6.375% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 7 March 2021. At any time and from time to time on or after 7 March 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (vii) On 16 April 2018, the Company issued senior notes with a principal amount of SG\$200,000,000 due in 2021 ("SG\$200m Senior Notes"). The senior notes are interest bearing at 6.125% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 16 April 2021. At any time and from time to time on or after 16 April 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (viii) On 24 April 2018, the Company issued senior notes with a principal amount of US\$300,000,000 due in 2021 ("US\$300m Senior Notes"). The senior notes are interest bearing at 6.875% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 24 April 2021. At any time and from time to time on or after 24 April 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (ix) On 30 May 2018, the Company issued senior notes with a principal amount of US\$100,000,000 due in 2021 ("US\$100m Senior Notes"). The senior notes are consolidated and form a single series with the US\$300m Senior Notes due 2021 issued on 24 April 2018. The senior notes are interest bearing at 6.875% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 24 April 2021. At any time and from time to time on or after 24 April 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (x) On 27 August 2018, the Company issued senior notes with a principal amount of US\$300,000,000 due in 2021 ("US\$300m Senior Notes due 2021"). The senior notes are interest bearing at 7.5% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 27 August 2021. At any time and from time to time prior to 27 August 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (xi) On 6 December 2018, the Company issued senior notes with a principal amount of US\$80,000,000 due in 2020 ("US\$80m Senior Notes"). The senior notes are interest bearing at 6.95% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 5 June 2020. At any time and from time to time prior to 5 June 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (xii) On 12 December 2018, the Company issued senior notes with a principal amount of US\$370,000,000 due in 2020 ("US\$370m Senior Notes"). The senior notes are interest bearing at 8.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 12 December 2020. At any time and from time to time prior to 12 December 2020, the Company may at its option redeem the senior notes at a pre-determined redemption price. The details of the redemption price are disclosed in the relevant offering memorandum.
- (xiii) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.
- (xiv) Redemption call options represent the fair value of the Company's options to early redeem the senior notes and are recorded as derivative financial instruments under "Trade and other receivables, prepayments and other assets" (note 20). The assumptions applied in determining the fair value of the redemption call options as at 31 December 2018 and 31 December 2017 are set out in note 43.

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27. CORPORATE BONDS

	2018 RMB'000	2017 RMB'000
Corporate bonds due in 2019	3,252,449	3,262,449
Corporate bonds due in 2020	4,490,000	4,500,000
Corporate bonds due in 2021	4,400,000	4,400,000
Corporate bonds due in 2022	8,490,000	—
	20,632,449	12,162,449
Portion classified as current liabilities	(7,652,449)	(7,000,000)
Non-current liabilities	12,980,000	5,162,449

Notes:

- (i) On 19 August 2015 and 27 August 2015 respectively, Shenzhen Logan Holdings Co., Ltd. ("Shenzhen Logan"), a company established in the PRC and a wholly-owned subsidiary of the Company, issued domestic corporate bonds on the Shanghai Stock Exchange. The coupon rates of the first and second tranche with principal amounts of RMB4,000,000,000 and RMB1,000,000,000 were fixed at 5% per annum and 4.77% per annum respectively. The terms of the first and second tranches of corporate bonds were 5 year and 4 years. At the end of third year and second year, Shenzhen Logan shall be entitled to adjust the coupon rate of first and second tranches of corporate bonds respectively and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan.

The first tranche with a principal amount of RMB4,000,000,000 is classified as a current liability as at 31 December 2017. On 19 August 2018, Shenzhen Logan had adjusted the coupon rate of first tranche of corporate bonds from 5% per annum to 7.3% per annum and the first tranche of corporate bonds with an aggregate principal amount of RMB10,000,000 was sold back to Shenzhen Logan; the first tranche of corporate bonds with a remaining principal amount of RMB3,990,000,000 is due in August 2020 and is classified as a non-current liability as at 31 December 2018.

On 28 August 2017, Shenzhen Logan had adjusted the coupon rate of second tranche of corporate bonds from 4.77% per annum to 5.35% per annum and the second tranche of corporate bonds with an aggregate principal amount of RMB237,551,000 was sold back to Shenzhen Logan. The second tranche of the corporate bonds with a remaining principal amount of RMB762,449,000 is classified as a current liability as at 31 December 2018.

- (ii) On 13 January 2016 and 16 May 2016 respectively, Shenzhen Logan issued non-public domestic corporate bonds on Shanghai Stock Exchange. The coupon rates of the first and second tranches with principal amounts of RMB2,500,000,000 and RMB500,000,000 were fixed at 5.8% per annum and 5.2% per annum respectively. The terms of the first and second tranches of corporate bonds were 3 years and 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of first and second tranches of corporate bonds respectively and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan.

On 13 January 2018, Shenzhen Logan had adjusted the coupon rate of first tranche of corporate bonds from 5.8% per annum to 6.88% per annum and the first tranche of corporate bonds with an aggregate principal amount of RMB10,000,000 was sold back to Shenzhen Logan; the first tranche of corporate bonds with a remaining principal amount of RMB2,490,000,000 is due and fully paid upon maturity in January 2019 and is classified as a current liability as at 31 December 2018.

On 16 May 2018, Shenzhen Logan had adjusted the coupon rate of second tranche of corporate bonds from 5.2% per annum to 6.99% per annum. The second tranche of corporate bonds is due in May 2020 and is classified as a non-current liability as at 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

27. CORPORATE BONDS (CONTINUED)

Notes: (Continued)

- (iii) On 25 July 2016, Shenzhen Logan issued non-public domestic corporate bonds on Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB3,000,000,000 was 5.15% per annum. The terms of the domestic corporate bonds were 5 years. At the end of third year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds to Shenzhen Logan. The corporate bonds with a principal amount of RMB3,000,000,000 is classified as a current liability as at 31 December 2018.
- (iv) On 21 October 2016, Shenzhen Logan issued domestic corporate bonds on the Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB1,400,000,000 was 3.4% per annum. The terms of the domestic corporate bonds were 5 years. At the end of third year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds to Shenzhen Logan. The corporate bonds with a principal amount of RMB1,400,000,000 is classified as a current liability as at 31 December 2018.
- (v) On 1 February 2018, 22 March 2018, 21 May 2018 and 7 December 2018 respectively, Shenzhen Logan issued non-public domestic corporate bonds on the Shanghai Stock Exchange. The coupon rates of the first, second, third and fourth tranches with a principal amounts of RMB2,000,000,000, RMB2,000,000,000, RMB1,000,000,000 and RMB1,000,000,000 were fixed at 6.99% per annum, 7.20% per annum, 7.30% per annum and 7% per annum respectively. The terms of all these four domestic corporate bonds were 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of all these four domestic corporate bonds and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan. These four corporate bonds are due in 2022 and are classified as non-current liabilities as at 31 December 2018.
- (vi) On 20 November 2018, Shenzhen Logan issued domestic corporate bonds on the Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB2,490,000,000 was 5.98% per annum. The terms of the domestic corporate bonds were 4 years. At the end of second year, Shenzhen Logan shall be entitled to adjust the coupon rate of domestic corporate bonds and bond holders shall be entitled to sell back the bonds to Shenzhen Logan. The corporate bonds is classified as a non-current liability as at 31 December 2018.

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Revaluation of properties RMB'000	Fair value adjustments arising from business combination RMB'000	Total RMB'000
At 1 January 2017	1,802,468	184,010	1,986,478
Charged/(credited) to profit or loss during the year	735,569	(13,644)	721,925
At 31 December 2017 and 1 January 2018	2,538,037	170,366	2,708,403
Charged/(credited) to profit or loss during the year	435,182	(3,680)	431,502
Acquisition of subsidiaries (note 34(b))	—	135,009	135,009
At 31 December 2018	2,973,219	170,366	3,274,914

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28. DEFERRED TAX (CONTINUED)

Deferred tax assets

	Unrealised profits arising from intra-group transactions RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2017	249,008	263,284	120,592	632,884
Credited to profit or loss during the year	16,187	235,746	18,496	270,429
At 31 December 2017 and 1 January 2018	265,195	499,030	139,088	903,313
Credited to profit or loss during the year	204,418	156,471	88,029	448,918
At 31 December 2018	469,613	655,501	227,117	1,352,231

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	(649,725)	(330,206)
Net deferred tax liabilities recognised in the consolidated statement of financial position	2,572,408	2,135,296
	1,922,683	1,805,090

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB34,368,743,000 at 31 December 2018 (2017: RMB17,984,337,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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29. SHARE CAPITAL

A summary of movements in the Company's issued share capital is as follows:

	2018		2017	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	5,487,167	548,717	5,496,322	549,632
Repurchase of shares	(15,086)	(1,509)	(15,652)	(1,565)
Issuance of shares in connection with the exercise of share options	18,116	1,812	6,497	650
At 31 December	5,490,197	549,020	5,487,167	548,717
RMB'000 equivalent at 31 December		434,041		433,828

Notes:

- (a) Pursuant to section 37(3) of the Companies Law of the Cayman Islands, an amount equivalent to the fair value of the shares repurchased and cancelled of HK\$130,949,000 (equivalent to approximately RMB114,755,000) (2017: HK\$111,809,000 (equivalent to approximately RMB93,461,000)) was transferred out from share capital and share premium.
- (b) During the year, the subscription rights attached to 18,115,500 (2017: 6,497,250) share options were exercised at the subscription price of HK\$2.340 (2017: HK\$2.340) per share, resulting in the issue of an aggregate of 18,115,500 shares for a total cash consideration of HK\$42,390,000 (equivalent to approximately RMB36,761,000) (2017: HK\$15,204,000 (equivalent to approximately RMB12,765,000)) before expenses. An amount of HK\$18,519,000 (equivalent to approximately RMB14,824,000) (2017: HK\$6,914,000 (equivalent to approximately RMB5,779,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme are included in note 30 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted by an ordinary resolution of the shareholders of the Company on 18 November 2013. Full-time and part-time employees, executives, officers or directors (including independent non-executive directors) of the Group and any advisors, consultants, agent, suppliers, customers, distributors and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group are included in the eligible participants under the Scheme. The maximum number of shares may be granted is 10% of the shares in issue immediately upon completion of the Global offering. Each participant cannot be entitled to more than 0.1% of the total number of shares in issue in any 12-month period unless approval from the independent non-executive directors of the Company is obtained. The option shall expire, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the Scheme.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share option is determinable by the directors, but should not be less than the highest of (i) the official closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheet on the date of grant of the share options; (ii) the average official closing price of the shares of the Company as stated in the Stock Exchange for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the shares of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

30. SHARE OPTION SCHEME (CONTINUED)

Share options do not confer rights on the holders to dividends or to vote at shareholder's meetings.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price HK\$ per share	Number of options	Weighted average exercise price HK\$ per share	Number of options
At beginning of year	4.49	167,160,500	2.34	120,264,658
Granted during the year	10.45	86,400,000	7.43	70,762,000
Lapsed during the year	7.43	(4,140,000)	—	—
Forfeited during the year	7.65	(14,587,000)	2.34	(17,368,908)
Exercised during the year	2.34	(18,115,500)	2.34	(6,497,250)
At 31 December	6.78	216,718,000	4.49	167,160,500

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options	2017 Number of options	Exercise price HK\$	Exercise period
11,216,000	—	7.64	10/22/2021–10/22/2028
12,592,000	—	7.64	10/22/2022–10/22/2028
12,592,000	—	7.64	10/22/2023–10/22/2028
15,407,666	—	12.5	6/8/2021–6/8/2028
15,407,667	—	12.5	6/8/2023–6/8/2028
15,407,667	—	12.5	6/8/2024–6/8/2028
14,631,000	17,690,500	7.43	8/25/2020–8/25/2027
14,771,000	17,690,500	7.43	8/25/2021–8/25/2027
14,771,000	17,690,500	7.43	8/25/2022–8/25/2027
14,771,000	17,690,500	7.43	8/25/2023–8/25/2027
4,100,000	10,609,000	2.34	5/29/2016–5/28/2020
20,856,000	33,122,500	2.34	5/29/2017–5/28/2020
34,358,500	34,892,500	2.34	5/29/2018–5/28/2020
15,836,500	17,774,500	2.34	5/29/2019–5/28/2020
216,718,000	167,160,500		

NOTES TO FINANCIAL STATEMENTS

31 December 2018

30. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year was HK\$268,802,000 (equivalent to RMB235,524,000) (ranging from HK\$2.01 to HK\$3.93 each) (2017: HK\$100,867,000 (equivalent to RMB84,316,000)), of which the Group recognised a share option expense of HK\$13,713,000 (equivalent to RMB12,015,000) (2017: HK\$8,465,000 (equivalent to RMB7,076,000)) during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted and the following table lists the major inputs used:

	October 2018	June 2018	2017	2014
Dividend yield (%)	5%	3%	5.5%	—
Expected volatility (%)	37%	35%	32%	56%
Risk-free interest rate (%)	2.45%	2.29%	1.54%	1.26%
Exit rates of the grantees of the options granted under the Scheme (%)	7.5%	7.5%	0%	0%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 216,718,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 216,718,000 additional ordinary shares of the Company and additional share capital of HK\$21,672,000 (equivalent to RMB18,980,000) and share premium of HK\$1,447,676,000 (equivalent to RMB1,268,454,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 211,404,000 share options outstanding under the Scheme, which represented approximately 3.85% of the Company's shares in issue as at that date.

31. PERPETUAL CAPITAL SECURITIES

On 31 May 2017, the Company issued perpetual capital securities with a principal amount of US\$350,000,000 (equivalent to approximately RMB2,363,346,000).

The securities confer the holders a right to receive distributions at the applicable distribution rate of 7% per annum from and including 31 May 2017, payable semi-annually on 31 May and 30 November of each year. The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the securities. Unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amount, the Company shall not declare or pay any dividends, distributions or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy-back or acquire for any consideration any share capital thereof. The securities may be redeemed at the option of the Company, in whole but not in part.

In the opinion of the directors, the Company is able to control the delivery of cash or other financial assets to the holders of the perpetual capital securities due to redemption other than an unforeseen liquidation of the Company. Accordingly, the perpetual capital securities are classified as equity instruments of the Company.

NOTES TO FINANCIAL STATEMENTS

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32. RESERVES**(i) Share premium**

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of group entities. The reserve is dealt with in accordance with the accounting policy set out in note 3.

(iii) PRC statutory reserves

PRC statutory reserves include the general reserve, statutory surplus reserve and statutory reserve fund.

General reserve

The general reserve is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

Statutory surplus reserve

According to the PRC Company Law, the PRC subsidiaries of the Group (excluding foreign investment enterprises) are required to transfer 10% of their profit after taxation, as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(iv) Share-based compensation reserve

Share-based compensation reserve represents the fair value of services in respect of share options granted under the share option scheme.

The share options lapsed due to the resignation of the certain mid-level managers. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the related share-based compensation reserve is transferred to retained profits.

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33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

The following table lists out the information relating to Huizhou Dongzhen and Shenzhen Logan Junjing, the subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Huizhou Dongzhen		Shenzhen Logan Junjing	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
NCI percentage	18%	0%	50%	28.6%
Current assets	9,429,433	—	25,999,378	20,631,536
Non-current assets	2,513,183	—	7,726,011	6,022,018
Current liabilities	(3,257,267)	—	(12,609,400)	(9,440,551)
Non-current liabilities	(1,746,191)	—	(1,127,319)	(5,126,741)
Net assets	6,939,158	—	19,988,670	12,086,262
Carrying amount of NCI	1,500,000	—	3,500,000	3,456,673
Revenue	185,567	—	18,107,983	—
(Loss)/profit for the year	(136,229)	—	4,372,807	1,044,210
Total comprehensive (loss)/income	(136,229)	—	4,372,807	1,044,210
Profit allocated to NCI	—	—	48,601	433,331
Cash (outflow)/inflow from operating activities	(1,206,171)	—	954,694	2,879,802
Cash outflow from investing activities	—	—	(231,658)	(679,292)
Cash inflow/(outflow) from financing activities	1,683,000	—	(866,486)	1,900,000

NOTES TO FINANCIAL STATEMENTS

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34. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of subsidiaries that are not a business

(i) Year ended 31 December 2018

During the year ended 31 December 2018, the Group acquired certain assets through acquisition of subsidiaries from the joint ventures of the Group. The following table summarises the financial information in relation to the acquisition of subsidiaries.

	Shenzhen Xingze Investment Co. Ltd. RMB'000	Zhongshan Lianan Property Co. Ltd. RMB'000	Shenzhen Kangqiao Jiacheng Realty Investment Co. Ltd. RMB'000	Total RMB'000
Other property, plant and equipment	37,806	93	397	38,296
Inventories	466,385	205,090	12,744,382	13,415,857
Other receivables	—	144,680	995	145,675
Tax recoverable	753	2,012	8,755	11,520
Cash and cash equivalents	60,777	253,693	17,305	331,775
Trade and other payables	(144,721)	(172,019)	(2,411,834)	(2,728,574)
Bank and other loans	(421,000)	(250,000)	—	(671,000)
Net identifiable assets	—	183,549	10,360,000	10,543,549
Satisfied by:				
Cash consideration	—	183,549	—	183,549
Offset against amount due from a joint venture included in trade and other receivables, prepayments and other assets	—	—	2,817,837	2,817,837
Amount due to a joint venture included in trade and other payables	—	—	7,542,163	7,542,163
	—	183,549	10,360,000	10,543,549

An analysis of the cash flows in respect of the above acquisitions is as follows:

	Shenzhen Xingze Investment Co. Ltd. RMB'000	Zhongshan Lianan Property Co. Ltd. RMB'000	Shenzhen Kangqiao Jiacheng Realty Investment Co. Ltd. RMB'000	Total RMB'000
Cash consideration paid	—	(183,549)	—	(183,549)
Cash and cash equivalents acquired	60,777	253,693	17,305	331,775
Net inflow of cash and cash equivalents included in cash flows from investing activities	60,777	70,144	17,305	148,226

NOTES TO FINANCIAL STATEMENTS

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34. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)**(a) Acquisition of subsidiaries that are not a business (Continued)****(ii) Year ended 31 December 2017**

During the year ended 31 December 2017, the Group acquired certain assets through acquisition of subsidiaries. The following table summarises the financial information in relation to the acquisition of subsidiaries.

	Zhuhai Doumenfushen Property Development Co. Ltd. RMB'000	Huizhou Aoda Property Development Co. Ltd. RMB'000	Others RMB'000	Total RMB'000
Other property, plant and equipment	—	—	1,200	1,200
Investment properties	—	—	106,729	106,729
Inventories	391,331	399,059	340,828	1,131,218
Trade and other receivables, prepayments and other assets	3,430	30,945	1,525,938	1,560,313
Tax recoverable	(1)	—	10	9
Cash and cash equivalents	40	2	5,855	5,897
Trade and other payables	(21,944)	(180,006)	(114,949)	(316,899)
Non-controlling interests	—	—	(5,394)	(5,394)
Bank and other loans	—	—	(1,100,000)	(1,100,000)
Net identifiable assets	372,856	250,000	760,217	1,383,073
Gain on bargain purchase	—	—	(514)	(514)
Total consideration	372,856	250,000	759,703	1,382,559
Cash consideration	394,800	430,000	759,703	1,584,503
Shareholder's loans	(21,944)	(180,000)	—	(201,944)
Cash and cash equivalents acquired	(40)	(2)	(5,855)	(5,897)
Net cash outflow arising from acquisitions	372,816	249,998	753,848	1,376,662

(b) Acquisition of subsidiaries that are a business

On 1 June 2018, the Group entered into a voting rights amendment agreement with a joint venture partner, which owns 50% of equity interest in Foshan Logan Junjing, a 50%-owned joint venture of the Group, pursuant to which the Group can exercise 51% of voting rights in shareholder's meeting and appoint three out of five directors in the board of directors of Foshan Logan Junjing. Upon execution of the voting rights amendment agreement on 1 June 2018, the Group is entitled to control the financial and operating activities of Foshan Logan Junjing. Foshan Logan Junjing is principally engaged in the business of property development in Foshan.

In December 2018, the Group entered into equity transfer agreements with certain joint venture partners for the acquisitions of remaining equity interests in six existing joint ventures. The equity interests acquired in the acquisitions are ranging from 50% to 100%. Upon completion of the acquisitions in December 2018, the six acquired companies became wholly-owned subsidiaries of the Group. These acquired companies are principally engaged in the business of property development in the PRC.

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34. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)**(b) Acquisition of subsidiaries that are a business (Continued)**

The fair values of the identifiable assets and liabilities of the above transactions as at the date of acquisition were as follows:

	Notes	Foshan Logan Junjung RMB'000	Others RMB'000	Total RMB'000
Other property, plant and equipment	15	40	3,472	3,512
Inventories		3,911,527	5,257,193	9,168,720
Trade and other receivables, prepayments and other assets		4,053,809	2,580,872	6,634,681
Tax recoverable		533,646	342,398	876,044
Cash and cash equivalents		997,377	1,691,596	2,688,973
Trade and other payables		(6,754,632)	(4,996,525)	(11,751,157)
Deferred tax liabilities	28	—	(135,009)	(135,009)
Bank and other loans		(2,647,000)	(3,320,000)	(5,967,000)
Total identifiable net assets at fair value		94,767	1,423,997	1,518,764
Gains on bargain purchase		—	(38)	(38)
Gain on remeasurement of pre-existing interests in joint ventures		(47,384)	—	(47,384)
Non-controlling interests		(47,383)	—	(47,383)
Total consideration		—	1,423,959	1,423,959
Satisfied by:				
Trade and other payables		—	702,630	702,630
Reclassification from pre-existing interests in joint ventures to investment in subsidiaries		—	721,329	721,329
		—	1,423,959	1,423,959

An analysis of the cash flows in respect of the acquisitions is as follows:

	RMB'000
Cash consideration paid	—
Cash and cash equivalents acquired	2,688,973
Net inflow of cash and cash equivalents included in cash flows from investing activities	2,688,973

The fair value of the other receivables as at the date of the acquisition amounted to RMB6,521,491,000. The gross contractual amount of other receivables was RMB6,521,491,000, of which nil is expected to be uncollectible.

During the year ended 31 December 2018, the Group acquired six subsidiaries from the joint venture partners of the Group.

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34. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)**(b) Acquisition of subsidiaries that are a business (Continued)**

The results of the subsidiaries acquired during the year had no significant impact on the Group's consolidated revenue or profit for the year.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB44,136,908,000 and RMB8,879,414,000, respectively.

35. DISPOSAL OF SUBSIDIARIES**(a) Disposal of subsidiaries**

The effect of such disposals on the Group's assets and liabilities is set out below:

	2017 RMB'000
Net assets disposed of:	
Inventories	399,551
Trade and other receivables	30,945
Cash and cash equivalents	887
Trade and other payables	(182,213)
Net assets attributable to the Group disposed of	249,170
Gain on disposal of subsidiaries, net	830
Total consideration	250,000
Total consideration received, satisfied in cash	250,000
Cash and cash equivalents disposed of	(887)
Net cash inflow arising from disposal	249,113

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35. DISPOSAL OF SUBSIDIARIES (CONTINUED)**(b) Deemed disposal of subsidiaries**

The effect of such disposals on the Group's assets and liabilities is set out below:

	2018	2017
	RMB'000	RMB'000
Net assets disposed of:		
Other property, plant and equipment	632	1,400
Inventories	10,491,830	2,306,812
Trade and other receivables, prepayments and other assets	5,219,089	2,010,588
Tax recoverable	42,593	—
Cash and cash equivalents	1,036,835	521,364
Trade and other payables	(8,241,548)	(1,147,308)
Bank and other loans	(8,317,484)	(2,755,600)
Net assets attributable to the Group disposed of	231,947	937,256
Gain on deemed disposal of subsidiaries, net	188,368	35,298
Reclassification to investments in joint ventures at fair value at date of deemed disposal	420,315	972,554

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

	2018	2017
	RMB'000	RMB'000
Cash and bank balances deconsolidated and outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	(1,036,835)	(521,364)

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36. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group acquired a subsidiary that is not a business from a joint venture at a consideration of RMB10,360,000,000, of which RMB2,817,837,000 was settled through offsetting against the amount due from the joint venture. Further details are set out in note 34(a)(i) to the financial statements.

(b) Changes in liabilities arising from financing activities

	Interest payables included in trade and other payables	Bank and other loans	Senior notes	Dividend payable included in other payables	Corporate bonds	Liabilities under cross-border guarantee arrangements	Amounts due to non-controlling shareholders included in trade and other payables	Amounts due to joint ventures and associates included in trade and other payables
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	684,901	15,078,011	5,708,526	—	12,400,000	—	—	1,343,560
Changes from financing cash flows	—	6,469,442	3,572,940	(656,528)	(237,551)	—	—	3,935,168
Changes from non-financing cash flows	—	—	—	—	—	1,745,380	—	440,363
Foreign exchange movement	(83,564)	(102,533)	(631,656)	—	—	—	—	—
Interest expense	1,861,355	—	680,162	—	—	—	—	—
Interest paid	(2,117,599)	—	(440,328)	—	—	—	—	—
Increase arising from acquisition of subsidiaries	—	1,100,000	—	—	—	—	—	—
Decrease arising from deemed disposal of subsidiaries	—	(2,755,600)	—	—	—	—	—	—
Dividends declared	—	—	—	2,158,706	—	—	—	—
At 31 December 2017 and 1 January 2018	345,093	19,789,320	8,889,644	1,502,178	12,162,449	1,745,380	—	5,719,091
Changes from financing cash flows	—	3,346,071	6,987,933	(1,515,782)	8,470,000	687,911	10,684,550	(926,526)
Changes from non-financing cash flows	—	—	—	—	—	608,277	—	3,046,907
Foreign exchange movement	75,969	88,155	466,028	—	—	—	—	—
Interest expense	2,315,781	—	881,605	—	—	—	—	—
Interest paid	(2,036,551)	—	(460,543)	—	—	—	—	—
Increase arising from acquisition of subsidiaries	—	5,967,000	—	—	—	—	—	—
Increase arising from acquisition of subsidiaries that are not a business	—	671,000	—	—	—	—	—	7,542,163
Decrease arising from deemed disposal of subsidiaries	—	(8,317,484)	—	—	—	—	—	—
Dividends declared	—	—	—	2,261,057	—	—	—	—
At 31 December 2018	700,292	21,544,062	16,764,667	2,247,453	20,632,449	3,041,568	10,684,550	15,381,635

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37. FINANCIAL GUARANTEES

At the end of the reporting period, the Group had the following financial guarantees:

	2018 RMB'000	2017 RMB'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Group's properties (notes (i) and (ii))	23,975,464	18,416,334
Guarantees given to banks and other lenders in connection with credit facilities granted to joint ventures and associates, net of counter-guarantees from joint venture partners	12,355,419	9,353,489
Add: Counter-guarantees provided by joint venture partners to the Group	6,455,097	—
Guarantees given to banks and other lenders in connection with credit facilities granted to joint ventures and associates provided by the Group (note (iii))	18,810,516	9,353,489
	42,785,980	27,769,823

The Group does not hold any collateral or other credit enhancements over the guarantees. The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor. The amount initially recognised represents the fair value at initial recognition of the financial guarantees.

Notes:

- (i) As at 31 December 2018, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

- (ii) The fair value of the guarantees at initial recognition and the ECL allowance are not significant as the directors of the Company consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalties.

NOTES TO FINANCIAL STATEMENTS

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37. FINANCIAL GUARANTEES (CONTINUED)

Notes: (Continued)

- (iii) As at 31 December 2018, the Group provided guarantees to the extent of RMB18,810,516,000 (2017: RMB9,353,489,000) in respect of credit facilities granted to the joint ventures and associates. In addition, as at 31 December 2018, the joint venture partners entered into counter-guarantee agreements with the Group, pursuant to which the joint venture partners provided counter-guarantees to the Group in proportion to those joint venture partners' respective interests in the joint ventures in respect of guarantees provided by the Group to the banks and other lenders on behalf of the joint venture partners. In the event of default on payment by the joint ventures, the Group is responsible for repaying the outstanding loan principals together with the accrued interest and penalties owed by the joint ventures, and the Group has the right to recover from the joint venture partners the attributable portion of liabilities paid pursuant to the counter-guarantee agreements.

In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant.

38. PLEDGE OF ASSETS

At the end of the reporting period, the Group's equity interests in certain subsidiaries and the following assets of the Group were pledged to secure certain bank and other loans granted to the Group:

	Notes	2018 RMB'000	2017 RMB'000
Bank deposits	22	258,172	224,621
Investment properties	16	—	3,540,242
Properties held for development for sale	19	399,380	—
Properties under development for sale	19	6,469,391	4,567,749
Completed properties for sale	19	556,256	58,385
Other receivables	20	—	280,000
		7,683,199	8,670,997

NOTES TO FINANCIAL STATEMENTS

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39. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	87,797	92,933
In the second to fifth years, inclusive	171,252	207,276
After five years	37,697	34,299
	296,746	334,508

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	3,299	1,913
In the second to fifth years, inclusive	3,845	1,467
	7,144	3,380

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018	2017
	RMB'000	RMB'000
Contracted, but not provided for	14,410,259	16,064,280

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41. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 RMB'000	2017 RMB'000
Construction contracts income from related companies	(i)	134,133	73,419
Construction contracts income from joint ventures	(i)	4,634,367	1,104,356
Project management service income from joint ventures	(i)	261,873	—
Management service income fee from joint ventures	(i)	194,217	23,885
Decoration income from joint ventures	(i)	241,213	20,104
Decoration income from related companies	(i)	8,754	—
Design fee from related companies	(i)	—	10,070
Design fee from joint ventures	(i)	181,822	75,442
Rental income from related companies	(ii)	1,532	6,705
Rental income from associates	(ii)	4,109	—
Rental income from joint ventures	(ii)	287	4,547
Interest income from associates	(iii)	182,448	144,205
Interest income from joint ventures	(iii)	717,551	406,832

Notes:

- (i) The income was derived from the construction, management, decoration and design services provided to joint ventures and related companies controlled by Mr. Kei at rates similar to the terms and conditions set out in the contracts entered into with the other major customers of the Group.
- (ii) The income was derived from the leasing of the Group's investment properties to related companies controlled by Mr. Kei and joint ventures at rates similar to the terms and conditions set out in the rental agreements entered into with the other tenants of the Group.
- (iii) This represented the gross interest income from the associates and joint ventures, which is before the elimination of interest between the Group and associates or joint ventures. The Group has been providing funds to associates and joint ventures.

- (b) Remuneration to key management personnel includes amounts paid to the directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11.

Transactions in connection with construction contracts income and decoration income from related companies above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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42. FINANCIAL INSTRUMENTS BY CATEGORY

Except for the derivative financial instruments, which are classified as financial assets at fair value through profit or loss, other financial assets and financial liabilities of the Group as at 31 December 2018 and 2017 were financial assets at amortised cost/loans and receivables, and financial liabilities at amortised cost, respectively.

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than derivative financial instruments, and senior notes and corporate bonds, reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, current portion of bank and other loans, amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

For the Group's assets and liabilities not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed, the carrying amounts of the non-current portion of deposits, bank and other loans and liabilities under cross-border guarantee arrangements approximated to their fair values and were determined as Level 3, and the fair values of the senior notes and corporate bonds were RMB16,388,433,000 and RMB20,712,514,000, respectively (2017: RMB8,943,147,000 and RMB11,966,207,000, respectively), and were determined as Level 1.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of deposits, bank and other loans and liabilities under cross-border guarantee arrangements have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the senior notes and corporate bonds is calculated with reference to price quotations from financial institutions at the reporting date. The Group's own non-performance risk for bank and other loans as at 31 December 2018 and 2017 was assessed to be insignificant.

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active	inputs	inputs	
	markets	(Level 2)	(Level 3)	
(Level 1)	RMB'000	RMB'000	RMB'000	
RMB'000	RMB'000	RMB'000	RMB'000	
Senior notes redemption call options	—	—	65,548	65,548

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted	Significant	Significant	
	prices in	observable	unobservable	
	active	inputs	inputs	
	markets	(Level 2)	(Level 3)	
(Level 1)	RMB'000	RMB'000	RMB'000	
RMB'000	RMB'000	RMB'000	RMB'000	
Senior notes redemption call options	—	—	18,678	18,678

Below is a summary of the valuation techniques used and the key inputs to the valuation of senior note redemption call options:

	Valuation techniques	Significant unobservable inputs	Range	
			2018	2017
Senior note redemption call options	Residual method	Risk free rate	1.870% to 2.598%	1.234% to 2.216%
		Option adjusted spread	3.930% to 6.894%	3.140% to 4.201%
		Discount rate	6.359% to 9.469%	4.374% to 6.417%

The fair values of derivative financial instruments are determined using the residual method by subtracting the fair value of the straight debt from the quoted market price of the notes at the date of valuation. The fair value measurement is negatively correlated to risk free rate, option adjusted spread and discount rate.

The Group did not have any financial liabilities measured at fair values as at 31 December 2018 and 2017.

During the year, there were no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities (2017: Nil).

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other loans and senior notes and corporate bonds, amounts due from/to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group's accounting policies related to derivatives are set out in note 3 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the year. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other loans with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
RMB	1%	(81,458)
HK\$	1%	(48,375)
US\$	1%	(16,073)
SG\$	1%	(36,837)
RMB	(1%)	81,458
HK\$	(1%)	48,375
US\$	(1%)	16,073
SG\$	(1%)	36,837
2017		
RMB	1%	(117,449)
HK\$	1%	(29,750)
US\$	1%	(9,755)
RMB	(1%)	117,449
HK\$	(1%)	29,750
US\$	(1%)	9,755

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONTINUED)**Foreign currency risk**

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other loans denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of loans or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong and Singapore, in which bank and other loans, Senior Notes and other receivables were denominated either in HK\$, US\$ or SG\$. The fluctuation of exchange rates of RMB against other foreign currencies will not have a material adverse effect on the operating results of the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates against HK\$, US\$ and SG\$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax RMB'000
2018		
If HK\$ weakens against RMB	(5%)	(109,709)
If HK\$ strengthens against RMB	5%	109,709
If US\$ weakens against RMB	(5%)	709,366
If US\$ strengthens against RMB	5%	(709,366)
If SG\$ weakens against RMB	(5%)	133,056
If SG\$ strengthens against RMB	5%	(133,056)
2017		
If HK\$ weakens against RMB	(5%)	(199,498)
If HK\$ strengthens against RMB	5%	199,498
If US\$ weakens against RMB	(5%)	453,135
If US\$ strengthens against RMB	5%	(453,135)
If SG\$ weakens against RMB	(5%)	(60,256)
If SG\$ strengthens against RMB	5%	60,256

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Group.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 37.

The credit risk of the Group's other financial assets, which mainly comprise investment in associates, investments in joint ventures, cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Maximum exposure and year-end staging as at 31 December 2018

The credit risk of the Group's trade receivables, other receivables, certain deposits, amounts due from related parties, non-controlling shareholders, joint ventures and associates, assets under cross-border guarantee arrangements, restricted and pledged deposits, and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Except for trade receivables which apply simplified approach in calculating ECLs, the credit quality of other financial assets measured at amortised cost is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition and hence, they are all classified under stage 1 for measurement of ECLs. The loss allowance provision for all financial assets measured at amortised cost were not significant as at 31 December 2018.

Guarantees given to banks and other lenders in connection with credit facilities granted to associates and joint ventures and in respect of mortgage facilities provided for certain purchasers of the Group's properties with aggregate amounts utilised of RMB42,785,980,000 (2017: RMB27,769,823,000) which are not yet past due and there is no information indicating of default and, hence, are all classified under stage 1 for measurement of ECLs.

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which mainly comprised investment in associates, investments in joint ventures, cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONTINUED)**Liquidity risk**

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans. In the opinion of the directors of the Company, the Group will have adequate sources of funding to finance its operation needs and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
2018					
Bank and other loans	10,662,577	5,363,835	7,606,908	—	23,633,320
Senior notes	1,147,516	7,135,799	11,206,852	—	19,490,167
Corporate bonds	8,789,282	5,263,956	9,337,265	—	23,390,503
Trade payables	10,447,968	1,457,829	597,991	—	12,503,788
Financial liabilities included in other payables and accruals	8,865,548	—	—	—	8,865,548
Due to related parties	14,250	—	—	—	14,250
Due to non-controlling shareholders	10,590,000	96,872	—	—	10,686,872
Due to associates and joint ventures	15,381,635	—	—	—	15,381,635
Liabilities under cross- border guarantee arrangements	2,555,035	200,933	365,545	—	3,121,513
	68,453,811	19,519,124	29,114,561	—	117,087,596
Financial guarantees issued: Maximum amount guaranteed	42,785,980	—	—	—	42,785,980

NOTES TO FINANCIAL STATEMENTS

31 December 2018

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONTINUED)

Liquidity risk (Continued)

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Over five years RMB'000	Total RMB'000
2017					
Bank and other loans	6,547,142	9,940,326	4,395,806	199,378	21,082,652
Senior notes	3,463,289	360,349	3,504,972	2,902,794	10,231,404
Corporate bonds	617,921	3,722,311	9,358,495	—	13,698,727
Trade payables	5,963,220	811,640	529,885	—	7,304,745
Financial liabilities included in other payables and accruals	4,538,272	91,534	—	—	4,629,806
Due to related parties	7,401	—	—	—	7,401
Due to joint ventures	5,719,091	—	—	—	5,719,091
Liabilities under cross- border guarantee arrangements	1,767,242	—	—	—	1,767,242
	28,623,578	14,926,160	17,789,158	3,102,172	64,441,068
Financial guarantees issued: Maximum amount guaranteed	27,769,823	—	—	—	27,769,823

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by the total equity. Net debt includes total bank and other loans, senior notes and corporate bonds less cash and cash equivalents and restricted and pledged deposits. Total capital comprises all components of equity (i.e., share capital, non-controlling interests, perpetual capital securities and reserves). The Group aims to maintain a healthy and stable net debt to equity ratio.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONTINUED)**Capital management (Continued)**

The net debt to equity ratios as at 31 December 2018 and 2017 were as follows:

	2018	2017
	RMB'000	RMB'000
Bank and other loans	21,544,062	19,789,320
Senior notes	16,764,667	8,889,644
Corporate bonds	20,632,449	12,162,449
Less: Cash and cash equivalents	(28,452,462)	(19,878,192)
Restricted and pledged deposits	(7,264,689)	(2,529,793)
Net debt	23,224,027	18,433,428
Total equity	36,745,786	27,163,809
Net debt to equity ratio	63.2%	67.9%

As at 31 December 2018, Shenzhen Logan, a wholly-owned subsidiary of the Company (established in the People's Republic of China) (the "Issuer"), has totally issued an amount of RMB20.6 billion of corporate bonds, of which RMB11.6 billion are publicly issued (2017: RMB7.2 billion). According to the Securities Law of the People's Republic of China, the accumulated bond balance constitutes no more than 40% of the net asset value of the Issuer. Other than the ratio, neither the Company nor any other of its subsidiaries are subject to externally imposed capital requirements.

45. EVENTS AFTER THE REPORTING PERIOD

- (a) On 9 January 2019, the Company issued senior notes with a principal amount of US\$50,000,000 due in 2022. The senior notes are consolidated and form a single series with the US\$200m Senior Notes due 2022 issued on 3 January 2017. The senior notes are interest-bearing at 5.75% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 3 January 2022. The details of the redemption price are disclosed in the relevant offering memorandum.
- (b) On 25 February 2019, the Company issued senior notes with a principal amount of US\$300,000,000 due in 2022. The senior notes are interest-bearing at 7.50% per annum which is payable semi-annually in arrears. The maturity date of the senior notes is 25 August 2022. The details of the redemption price are disclosed in the relevant offering memorandum.
- (c) On 19 March 2019, Shenzhen Logan issued public domestic corporate bonds on Shenzhen Stock Exchange. The coupon rate of the domestic corporate bonds with a principal amount of RMB1,510,000,000 was 5.50% per annum. The terms of the domestic corporate bonds were 5 years. At the end of the third year, Shenzhen Logan shall be entitled to adjust the coupon rate, and the bond holders shall be entitled to sell back the bonds to Shenzhen Logan.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018	2017
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	10,211	10,211
Other property, plant and equipment	7,661	6,060
Total non-current assets	17,872	16,271
CURRENT ASSETS		
Prepayments and other receivables	29,289,626	16,333,333
Cash and cash equivalents	2,883,794	2,143,777
Total current assets	32,173,420	18,477,110
CURRENT LIABILITIES		
Other payables and accruals	5,226,108	3,881,868
Bank loans	3,644,615	554,961
Senior notes	—	2,965,541
Total current liabilities	8,870,723	7,402,370
NET CURRENT ASSETS	23,302,697	11,074,740
TOTAL ASSETS LESS CURRENT LIABILITIES	23,320,569	11,091,011
NON-CURRENT LIABILITIES		
Bank loans	1,777,284	2,068,125
Senior notes	16,764,667	5,924,103
Total non-current liabilities	18,541,951	7,992,228
Net assets	4,778,618	3,098,783
EQUITY		
Share capital	434,041	433,828
Perpetual capital securities	2,363,346	2,363,346
Reserves (note)	1,981,231	301,609
Total equity	4,778,618	3,098,783

NOTES TO FINANCIAL STATEMENTS

31 December 2018

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY
(CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Exchange reserve RMB'000	Share-based compensation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	1,899,444	129,733	95,062	(1,736,178)	388,061
Profit and total comprehensive income for the year	—	(154,669)	—	2,372,286	2,217,617
Repurchase of own shares	(92,153)	—	—	—	(92,153)
Equity-settled share-based transactions	—	—	14,237	—	14,237
Distribution to holders of perpetual capital securities	—	—	—	(79,667)	(79,667)
Effect of forfeited share options	—	—	(14,372)	14,372	—
Issuance of shares in connection with the exercise of share options	17,999	—	(5,779)	—	12,220
Dividends declared	(1,825,290)	—	—	(333,416)	(2,158,706)
At 31 December 2017 and 1 January 2018	—	(24,936)	89,148	237,397	301,609
Profit and total comprehensive income for the year	—	114,746	—	4,031,134	4,145,880
Repurchase of own shares	(50,033)	—	—	(63,383)	(113,416)
Equity-settled share-based transactions	—	—	20,963	—	20,963
Distribution to holders of perpetual capital securities	—	—	—	(147,957)	(147,957)
Effect of forfeited share options	—	—	(7,082)	7,082	—
Issuance of shares in connection with the exercise of share options	50,033	—	(14,824)	—	35,209
Dividends declared	—	—	—	(2,261,057)	(2,261,057)
At 31 December 2018	—	89,810	88,205	1,803,216	1,981,231

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2019.

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