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The materials relating to the offering of securities to which this Offering Circular relates 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 underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

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OFFERING CIRCULAR

中國海外發展有限公司
CHINA OVERSEAS LAND & INVESTMENT LTD.

China Overseas Finance (Cayman) VIII Limited

(incorporated in the Cayman Islands with limited liability)

(as Issuer)

China Overseas Land & Investment Limited

中國海外發展有限公司

(incorporated in Hong Kong with limited liability)

(as Guarantor)

US$2,500,000,000
Medium Term Note Programme

Under the US$2,500,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), China Overseas Finance (Cayman) VIII Limited (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**"). The Notes issued under the Programme will be unsecured and unsubordinated obligations of the Issuer and will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by China Overseas Land & Investment Limited 中國海外發展有限公司 (the "**Guarantor**"). The Guarantor's shares are listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). The aggregate nominal amount of Notes outstanding will not at any time exceed US$2,500,000,000 (or its equivalent in other currencies), subject to increase as described herein.

Where applicable for a relevant Tranche of Notes, registration will be completed by the Guarantor pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC (the "**NDRC**") on 14 September 2015 which came into effect on the same day. After the issuance of such relevant Tranche of Notes, the Guarantor intends to provide the requisite information on the issuance of such Notes to the NDRC as soon as practicable but in any event within the prescribed timeframe in accordance with the NDRC Circular.

Application will be made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. This Offering Circular is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Guarantor or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under the "*Summary of the Programme*") of Notes will be set out in a Pricing Supplement which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of the Notes of such Tranche.

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or any other stock exchange.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state of the United States and may not be offered or sold or, in case of Bearer Notes, delivered in the United States or, in case of Regulation S (as defined below) Category 2 offering, to or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act (the "**Regulation S**")) except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States. The Notes are being offered outside the United States in reliance on Regulation S under the Securities Act. Bearer Notes are subject to US tax law requirements. See "*Subscription and Sale*".

The Notes of each Series issued in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note in bearer form (each a "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Global Note**") (collectively, the "**Global Note**"). Notes in registered form ("**Registered Notes**") will be represented by a global note in registered form (each a "**Global Certificate**"). Global Notes and Global Certificates may be deposited on the relevant issue date with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**") operated by the Hong Kong Monetary Authority. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

The Programme is expected to be rated "BBB+" by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**") and "A-" by Fitch Ratings Ltd ("**Fitch**"). Each of S&P and Fitch is a licensed corporation under the SFO to conduct type 10 (providing credit rating services) regulated activities as defined under the SFO. Tranches of Notes (as defined under the "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Offering Circular.

Joint Arrangers

BOC International **HSBC**

The date of this Offering Circular is 5 July 2019

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NOTICE TO INVESTORS

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer, the Guarantor and the Notes. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that to the best of their knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and the Guarantor and its subsidiaries taken as a whole (the "**Group**"), the Notes and the Guarantee, which is material in the context of the issue and offering of the Notes and the information which, according to the particular nature of the Group, of the Notes and of the Guarantee, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Guarantor and of the rights attaching to the Notes and the Guarantee, (ii) the statements contained in this Offering Circular are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group 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 the Issuer, the Guarantor, the Group, the Notes or the Guarantee the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect, and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain the facts in relation to the Issuer, the Guarantor and the Group and to verify the accuracy of all such information and statements.

Each Tranche (as defined in "*Summary of the Programme*") of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by a document specific to such Tranche called a pricing supplement (the "**Pricing Supplement**"). This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Joint Arrangers, the Dealers, the Trustee (as defined in the Terms and Conditions of the Notes) and the Agents (as defined in the Terms and Conditions of the Notes) to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor, the Joint Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action is being taken to permit a public offering of the Notes or the distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action would be required for such purposes. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

No prospectus is required in accordance with Directive 2003/71/EC (as amended by Directive 2010/73/EU) in relation to offers of Notes under the Programme.

There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular and any Pricing Supplement, see "*Subscription and Sale*".

Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer or the Guarantor to give any information or to make any representation other than those contained in this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Arrangers, any Dealer, the Trustee or any Agent (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). Neither the delivery of this Offering Circular or any Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Group or any of them since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or create any implication that the information contained herein is correct as at any date subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to subscribe for or purchase any Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

The Joint Arrangers, the Dealers, the Trustee and the Agents (and any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. Accordingly, no representation or warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted by the Joint Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer and the Guarantor in connection with the Programme, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Joint Arrangers, any of the Dealers, the Trustee or any of the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular should purchase any Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (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.

MIFID II product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "**MiFID II Product Governance**" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Arrangers or the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, 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 CMP Regulations 2018) 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).

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO US TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR, IN CASE OF REGULATION S CATEGORY 2 OFFERING, TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S OR THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER IN CASE OF BEARER NOTES).

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION COORDINATOR(S) (OR ANY PERSON(S) ACTING FOR IT) (THE "STABILISATION COORDINATOR(S)") IN THE

APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED TIME. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

The Issuer and the Guarantor have prepared this Offering Circular using a number of conventions, which you should consider when reading the information contained herein. The term the "**Issuer**" is referring to China Overseas Finance (Cayman) VIII Limited. The terms the "**Guarantor**" or the "**Group**" and words of similar import are referring to China Overseas Land & Investment Limited itself, or to China Overseas Land & Investment Limited and its consolidated subsidiaries, as the context requires.

Unless otherwise specified or the context requires, all references herein to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, to "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China, to "**China**" or "**Mainland China**" or the "**PRC**" are to the People's Republic of China and for the purpose of this Offering Circular only, excluding Hong Kong, Macau and Taiwan; all references to "**Hong Kong dollars**," "**HK dollars**" and "**HK$**" are to the lawful currency of Hong Kong, to "**US dollars**" or "**US$**" are to the lawful currency of the United States of America, to "**Renminbi**," "**RMB**" or "**CNY**" are to the lawful currency of the PRC, to "**sterling**" or "**British Pound**" or "**£**" are to the lawful currency of the United Kingdom, to "**euro**" or "**€**" are to the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended from time to time.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Joint Arrangers, any Dealer, the Trustee, the Agents or their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them, and none of the Issuer, the Guarantor, the Joint Arrangers, any Dealer, the Trustee, the Agents or their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

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.

Unless otherwise indicated, in this Offering Circular:

"**CBRC**"	refers to China Banking Regulatory Commission.
"**Companies Ordinance**"	refers to Companies Ordinance (Cap. 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.
"**COGO**".	refers to China Overseas Grand Oceans Group Limited 中國海外宏洋集團有限公司, a 38.32 per cent-owned associate of the Guarantor.
"**COHL**".	refers to China Overseas Holdings Limited 中國海外集團有限公司.
"**CSCEC**"	refers to China State Construction Engineering Corporation 中國建築集團有限公司 (formerly known as 中國建築工程總公司).
"**CSCECL**"	refers to China State Construction Engineering Corporation Limited 中國建築股份有限公司.
"**CSRC**"	refers to China Securities Regulatory Commission.
"**GDP**"	refers to gross domestic product.
"**GFA**"	refers to gross floor area.
"**HKFRSs**"	refers to Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
"**IFRS**".	refers to International Financial Reporting Standards issued by the International Accounting Standards Board.
"**LAT**"	refers to land appreciation tax.
"**PBOC**"	refers to the People's Bank of China.
"**SFO**"	refers to Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

PRESENTATION OF FINANCIAL INFORMATION

FINANCIAL DATA

The Guarantor's consolidated financial statements are prepared in accordance with HKFRSs, which differ in certain respects from generally accepted accounting principles in other countries, including IFRS, which differences might be material to the financial information presented herein. Potential investors should consult their own professional advisors for an understanding of the difference between HKFRSs, IFRS and accounting principles in certain other jurisdictions, and how those differences might affect the financial information presented herein. In making an investment decision, investors must rely upon their own independent examination of the Issuer, the Guarantor, the Group, the Notes, the terms of this offering and the Guarantor's recent financial information. Unless specified or the context otherwise requires, all financial information in this Offering Circular is presented on a consolidated basis.

Unless otherwise indicated, the historical financial information included in this Offering Circular has been derived from the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2017 and 2018. Unless the context otherwise requires, references to "2016", "2017" and "2018" in this Offering Circular are to the Group's financial years ended 31 December 2016, 2017 and 2018, respectively.

EXCHANGE RATE INFORMATION

This Offering Circular contains a translation of certain Hong Kong dollar amounts into US dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Issuer or the Guarantor has been translated into US dollars, it has been so translated, for convenience only, at the rate of HK$7.8305 per US$1.00, which was the noon buying rate as certified for customs purposes by the weekly statistical release of the Federal Reserve Board for Hong Kong dollars on 31 December 2018. No representation is made that the Hong Kong dollar amounts referred to in this Offering Circular could have been or could be converted into US dollars at any particular rate or at all.

ROUNDING

In this Offering Circular, 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. References to information in billions of units are to the equivalent of a thousand million units.

NON-GAAP FINANCIAL MEASURES

This Offering Circular contains certain information regarding the Group's Adjusted EBITDA. Adjusted EBITDA for any period consists of profit for the year before interest expense and other finance costs, taxes, depreciation and amortisation, excluding capitalised finance costs and exchange losses within cost of stock of properties recognised as expenses, gain arising from changes in fair value of investment properties, gain on disposal of investment properties, gain on disposal of subsidiaries, gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition, gain on acquisition of subsidiaries, impairment losses in respect of goodwill, share of profits of associates and joint ventures and net foreign exchange gains (losses). Adjusted EBITDA is not a standard measure under HKFRSs. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the year or any other measure of financial performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating Adjusted EBITDA, investors should consider, among other things, the components of Adjusted EBITDA such as revenue and operating expenses and the amount by which Adjusted EBITDA exceeds capital expenditures and other charges. The Group has included Adjusted EBITDA because the Group believes that it is a useful supplement to cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group's Adjusted EBITDA to EBITDA presented by other companies because not all companies use the same definition.

INFORMATION INCORPORATED BY REFERENCE AND FINANCIAL INFORMATION

This Offering Circular should be read and construed in conjunction with:

(i) each relevant Pricing Supplement;

(ii) all amendments and supplements from time to time to this Offering Circular;

(iii) any annual or interim financial statements (whether audited or unaudited) of the Issuer that are published subsequent to the date of this Offering Circular as amended and supplemented from time to time; and

(iv) any annual or interim financial statements (whether audited or unaudited) of the Guarantor that are published subsequent to the date of this Offering Circular as amended and supplemented from time to time;

which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular.

The Guarantor prepares its consolidated financial statements in accordance with HKFRSs. The Guarantor's consolidated financial statements as at and for the years ended 31 December 2017 and 2018 which are included elsewhere in this Offering Circular were audited by PricewaterhouseCoopers as stated in its audit report appearing elsewhere in this Offering Circular.

Any statement contained in this Offering Circular or in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Offering Circular, except as modified or superseded.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available (upon written request) free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection at the principal place of business of the Trustee set out at the end of this Offering Circular.

SUPPLEMENTAL OFFERING CIRCULAR

The Issuer and the Guarantor have given an undertaking to the Dealers that in the event of (i) a significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of the Notes arising or being noted, (ii) a change in the condition of the Issuer or the Guarantor which is material in the context of the Programme or the issue of any Notes or (iii) this Offering Circular otherwise coming to contain an untrue statement of a material fact or omitting to state a material fact necessary to make the statements contained therein not misleading or if it is necessary at any time to amend this Offering Circular to comply with, or reflect changes in, the laws or regulations of Hong Kong or the PRC or any other relevant jurisdiction, the Issuer and the Guarantor shall update or amend this Offering Circular (following consultation with the Dealers) by the publication of a supplement to it or a new offering circular, in each case in a form approved by the Dealers.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*the Guarantor*", "*the Group*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Guarantor's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's or the Guarantor's expectations. All subsequent written and forward-looking statements attributable to the Issuer or the Guarantor or persons acting on behalf of the Issuer or the Guarantor are expressly qualified in their entirety by such cautionary statements.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including any information incorporated by reference. Phrases used in this summary and not otherwise defined shall have the meanings given to them in the section entitled "Terms and Conditions of the Notes".

Issuer	China Overseas Finance (Cayman) VIII Limited.
Guarantor	China Overseas Land & Investment Limited (中國海外發展有限公司).
Description	Guaranteed Medium Term Note Programme.
Size	Up to U.S.$2,500,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer and the Guarantor may increase the aggregate nominal amount of the Programme in accordance with the terms of the Programme Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations in respect of the Notes are discussed under "*Risk Factors*".
Arrangers	BOCI Asia Limited and The Hongkong and Shanghai Banking Corporation Limited.
Dealers	The Issuer and the Guarantor may from time to time terminate the appointment of any dealer under the Programme or appoint Dealer(s) either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Dealers**" are to all persons appointed as a dealer in respect of one or more Tranches or the Programme.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restriction applicable at the date of this Offering Circular.

	Notes having a maturity of less than one year
	Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*").
Trustee	DB Trustees (Hong Kong) Limited (德意志信託(香港)有限公司).
Principal Paying Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch.
Registrar	Deutsche Bank AG, Singapore Branch.
CMU Lodging and Paying Agent	Deutsche Bank AG, Hong Kong Branch.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and/or the issue price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in Tranches on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes (as defined in "*Terms and Conditions of the Notes*") may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer or registered form as described in "*Terms and Conditions of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa.*
	Each Tranche of Bearer Notes will initially be in the form of either a temporary bearer Global Note or a permanent bearer Global Note, in each case as specified in the relevant Pricing Supplement.

	Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Clearstream, Euroclear and/or, as the case may be, the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Global Certificates. Global Certificates representing Registered Notes will be registered in the name of a common depositary or nominee for one or more of Euroclear, Clearstream and the CMU.
Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Guarantor, the Principal Paying Agent, the Trustee, the Registrar and the relevant Dealer(s).
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing the Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the Hong Kong Monetary Authority as operator of the CMU. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system *provided* that the method of such delivery has been agreed in advance by the Issuer, the Guarantor, the Trustee, the Principal Paying Agent and the relevant Dealer(s). Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor, the Principal Paying Agent and the relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s).

Specified Denomination	Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central banks (or equivalent body) or any laws or regulations applicable to the relevant currency (see "— *Certain Restrictions*" above).
Fixed Rate Notes	Fixed interest will be payable in arrear on such date or dates as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) by reference to LIBOR, EURIBOR, HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; or (iii) on such other basis as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s). Interest periods will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes (as defined in "*Terms and Conditions of the Notes*") may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in "*Terms and Conditions of the Notes*") will be made in such currencies, and based on such rates of exchange, as the Issuer, the Guarantor and the relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.

Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes (as defined in "*Terms and Conditions of the Notes*") or of interest in respect of Index Linked Interest Notes (as defined in "*Terms and Conditions of the Notes*") will be calculated by reference to such index and/or formula or to changes in prices of securities or commodities or to such other factors as the Issuer, the Guarantor and the relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default (as defined in "*Terms and Conditions of the Notes*")) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s). The applicable Pricing Supplement may provide that the relevant Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*— Certain Restrictions — Notes having a maturity of less than one year*" above.
Optional Redemption	If Call or Put Option is specified hereon, the Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Redemption for Change of Control	The terms of the Notes allow for the election in the Pricing Supplement for the early redemption of the Notes at the option of the holders thereof upon the occurrence of a Change of Control as further described in Condition 6(d) of the Terms and Conditions of the Notes.
Redemption for Taxation Reasons	Notes will be redeemable at the Issuer's option prior to maturity for tax reasons as further described in Condition 6(c) of the Terms and Conditions of the Notes.

Status of Notes	The Notes, the Receipts and the Coupons will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will rank at all times *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes, the Receipts and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated indebtedness and monetary obligations of the Issuer.
Status of the Guarantee	The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated indebtedness and monetary obligations of the Guarantor.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Notes.
Covenant to Notify PRC Authorities	The Terms and Conditions of the Notes will contain a provision as described in Condition 4(b) of the Terms and Conditions of the Notes.
Events of Default	The Terms and Conditions of the Notes will contain certain events of defaults as described in Condition 10 of the Terms and Conditions of the Notes.
Cross Default	The Terms and Conditions of the Notes will contain a cross default provision as described in Condition 10(c) of the Terms and Conditions of the Notes.
Withholding Tax	All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any of the Relevant Jurisdictions (as defined in "*Terms and Conditions of the Notes*") unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor will, subject to certain customary exceptions, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. See Condition 8 of the Terms and Conditions of the Notes.
Governing Law and Jurisdiction	English law with the submission to the exclusive jurisdiction of Hong Kong courts.

Listing and Admission to Trading	Application will be made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA, the United Kingdom, Japan, Hong Kong, the PRC and Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*".
United States Selling Restriction	Regulation S, Category 1 or 2 as specified in the applicable Pricing Supplement. TEFRA C, TEFRA D or TEFRA not applicable, as specified in the applicable Pricing Supplement. "TEFRA not applicable" is only available for (i) Registered Notes or (ii) Bearer Notes with a term of 365 days or less (taking into account any unilateral rights to extend or rollover the term).
Legal Entity Identifier	The legal entity identifier of the Issuer is 300300JLMTEWBKJNL662.

SUMMARY OF THE GROUP

The summary below is only intended to provide a limited overview of detailed information described elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read the entire Offering Circular, including the section entitled "Risk Factors" and the consolidated financial statements of the Guarantor and related notes thereto, before making an investment decision.

OVERVIEW

The Group is a major property developer in the PRC. Its main sources of revenue are the development and sale of residential and commercial properties in Mainland China, Hong Kong and Macau. The Group has made significant investments and has interests in property development projects in major cities in Mainland China such as Beijing, Guangzhou, Shanghai and Shenzhen, in which the property market has experienced significant growth in recent years. The Group also has a strong presence in other major cities in Mainland China including Chengdu, Chongqing, Xiamen, Hangzhou, Nanjing, Wuhan, Zhengzhou, Suzhou, Tianjin and Xi'an. The property development portfolio of the Group in Mainland China includes property developments in the Hua Nan Region, the Hua Dong Region, the Hua Bei Region, the Western Region and the Northern Region, covering a diverse area across Mainland China. In addition, the Group has made sizable investments in property development projects in Hong Kong and Macau. As at 31 December 2018, the Group and its joint ventures and associates (excluding COGO) had a land bank of approximately 70.10 million square metres (with an attributable land bank of approximately 56.97 million square metres), while COGO, a 38.32 per cent.-owned associate of the Guarantor, had a land bank of approximately 21.34 million square metres (with an attributable land bank of approximately 19.98 million square metres), together across 64 cities in the PRC as well as in Hong Kong and Macau.

In addition to property development, the Group is also involved in property investment in Mainland China, Hong Kong, Macau and London. The Group seeks commercial development properties for long-term appreciation and lease potential and derives rental and management fees from its property portfolio investment in Mainland China, Hong Kong, Macau and London.

The Group also runs a number of complementary operations, including hotel operation, real estate management services and construction and building design consultancy services.

For the year ended 31 December 2018, the Guarantor's consolidated revenue and net profit was approximately HK$171,461.1 million (approximately US$21,896.6 million) and approximately HK$46,702.0 million (approximately US$5,964.1 million), respectively. As at 2 July 2019, the Guarantor had a market capitalisation of approximately HK$318.3 billion, which made it one of the largest PRC-focused property developers listed on the Hong Kong Stock Exchange in terms of market capitalisation as at such date. The Guarantor is also a member of the Hang Seng Index, the Hang Seng Corporate Sustainability Index and FTSE China 50 Index.

The Guarantor is rated "Baa1/Stable" by Moody's, "BBB+/Stable" by Standard & Poor's and "A–/Stable" by Fitch.

The Group is comprised of the Guarantor and over 400 subsidiaries. The Issuer is a direct wholly-owned subsidiary of the Guarantor.

Competitive Strengths

The Group believes that its success and its ability to capitalise on future growth opportunities are attributable to the following key competitive strengths:

- The Group is a major PRC property developer supported by the well-known national brand of "China Overseas Property" ("中海地產") in the mid- to high-end sector.
- The Group is well-positioned to capitalise on the growing trend of "green initiative".
- As a major state-owned developer, the Group benefits from strong support from its controlling shareholder which has fostered its long-term sustainable development.
- The Group has a proven track record and in-depth local knowledge.
- The Group owns a sizable, diversified and high quality land bank.
- The Group's operations are scalable for further expansion.
- The Group is financially strong and has flexible sources of funding.

Strategies

The Group's key business objective is to seek sustainable growth in revenue and profit by pursuing the following strategies:

- Continuing to focus on property development business especially in the PRC.
- Continuing to strengthen the "China Overseas Property" ("中海地產") brand nationwide.
- Focusing on the mid- to high-end property sector and enhancing its market share in the PRC residential property sector, particularly in tier-one and tier-two cities.
- Developing COGO to serve as an effective complement in tier-three cities.
- Expanding its land bank at a reasonable price.
- Increasing its property investment portfolio and diversifying its income sources.
- Expanding its development through selective land acquisitions and mergers and acquisitions.
- Maintaining prudent financial management and internal control system.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF THE GUARANTOR

The following table sets forth the Guarantor's summary consolidated financial information. The summary consolidated financial information as at and for the years ended 31 December 2016, 2017 and 2018 has been derived from the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2017 and 2018, including the notes thereto, which are included elsewhere in this Offering Circular.

The Guarantor's consolidated financial statements are prepared in accordance with HKFRSs. In preparing the audited consolidated financial statements for the year ended 31 December 2018, the Group has adopted HKFRS 9, Financial Instruments and HKFRS 15, Revenue from Contracts with Customers, with effect from 1 January 2018 and has not restated prior years' consolidated financial statements. Therefore, the audited consolidated financial statements for the year ended 31 December 2018 is not comparable with the consolidated financial statements for the years ended 31 December 2016 and 2017. For the impact of the adoption of HKFRS 9 and HKFRS 15, please refer to Note 2 to the audited consolidated financial statements as at and for the year ended 31 December 2018 included elsewhere in this Offering Circular.

Please note that the US dollar figures are unaudited and provided solely for the convenience of the investors.

Consolidated Income Statement

	Year ended 31 December			
	2016	2017	2018	2018
	(audited) (HK$'000)	(audited) (HK$'000)	(audited) (HK$'000)	(unaudited) (US$'000)
Revenue	164,068,528	166,044,963	171,461,059	21,896,566
Business tax	(5,351,547)	(2,072,793)	(1,802,162)	(230,146)
Net revenue	158,716,981	163,972,170	169,658,897	21,666,420
Direct operating costs, exclude business tax above	(113,073,759)	(109,272,364)	(104,855,413)	(13,390,641)
	45,643,222	54,699,806	64,803,484	8,275,779
Other income and gains, net	1,789,484	5,353,577	1,081,055	138,057
Gain arising from changes in fair value of investment properties	7,722,671	5,946,121	10,412,570	1,329,745
Gain on disposal of investment properties	1,028,432	40,782	23,265	2,971
Gain on disposal of subsidiaries	10,175,939	165,865	—	—
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	—	2,140,171	—	—
Gain on acquisition of subsidiaries	—	326,267	—	—
Impairment losses in respect of goodwill	(1,903,104)	—	—	—
Selling and distribution costs	(3,371,597)	(2,949,521)	(2,621,750)	(334,813)
Administrative expenses	(3,179,742)	(2,848,693)	(2,966,589)	(378,851)
Operating profit	57,905,305	62,874,375	70,732,035	9,032,888
Share of profits of				
Associates	476,682	1,164,116	2,207,624	281,926
Joint ventures	775,770	774,352	1,214,358	155,081
Finance costs	(2,055,956)	(1,393,544)	(1,585,609)	(202,491)
Profit before tax	57,101,801	63,419,299	72,568,408	9,267,404
Income tax expenses	(18,711,025)	(21,277,184)	(25,866,438)	(3,303,293)
Profit for the year	38,390,776	42,142,115	46,701,970	5,964,111
Attributable to:				
Owners of the Guarantor	37,020,638	40,766,835	44,900,303	5,734,028
Non-controlling interests	1,370,138	1,375,280	1,801,667	230,083
	38,390,776	42,142,115	46,701,970	5,964,111

Consolidated Statement of Financial Position

	As at 31 December			
	2016	2017	2018	2018
	(audited) (HK$'000)	(audited) (HK$'000)	(audited) (HK$'000)	(unaudited) (US$'000)
Non-current assets				
Investment properties	67,093,181	97,377,389	111,574,402	14,248,694
Property, plant and equipment	3,886,507	3,897,596	3,666,270	468,204
Prepaid lease payments for land	567,873	575,810	531,615	67,890
Interests in associates	5,512,064	8,232,345	13,049,023	1,666,435
Interests in joint ventures	10,526,289	12,405,070	13,633,847	1,741,121
Investments in syndicated property project companies	24,212	24,212	—	—
Available-for-sale investments	147,211	115,842	—	—
Amounts due from associates	2,728,181	8,969,792	4,930,272	629,624
Amounts due from joint ventures	2,058,017	6,592,674	4,581,650	585,103
Other receivables	—	456,540	388,066	49,558
Goodwill	64,525	64,525	64,525	8,240
Deferred tax assets	3,767,912	4,902,484	5,888,836	752,038
	96,375,972	143,614,279	158,308,506	20,216,907
Current assets				
Inventories	88,711	82,852	103,400	13,205
Stock of properties	261,689,777	335,541,563	382,808,752	48,886,885
Land development expenditure	7,631,262	24,305,938	28,715,739	3,667,165
Prepaid lease payments for land	18,397	16,396	15,389	1,965
Trade and other receivables	11,341,431	14,300,567	11,124,808	1,420,702
Contract assets	—	—	1,491,080	190,420
Deposits and prepayments	6,897,193	7,240,012	9,498,236	1,212,980
Deposits for land use rights for property development	5,166,601	2,386,145	10,362,832	1,323,393
Amounts due from fellow subsidiaries	214,442	356,221	375,544	47,959
Amounts due from associates	11,801,798	5,508,696	7,746,515	989,275
Amounts due from joint ventures	5,512,861	2,985,523	7,414,115	946,825
Amounts due from non-controlling shareholders	817,806	728,934	1,384,113	176,759
Amounts due from CITIC Group	839,050	197,949	—	—
Tax prepaid	5,732,244	4,089,095	5,436,273	694,243
Bank balances and cash	157,161,732	104,050,615	100,555,356	12,841,499
	474,913,305	501,790,506	567,032,152	72,413,275
Total assets	**571,289,277**	**645,404,785**	**725,340,658**	**92,630,182**

	As at 31 December			
	2016	2017	2018	2018
	(audited) (HK$'000)	(audited) (HK$'000)	(audited) (HK$'000)	(unaudited) (US$'000)
Current liabilities				
Trade and other payables	44,815,201	51,826,299	60,005,843	7,663,092
Pre-sales deposits	82,255,805	77,857,359	—	—
Contract liabilities	—	—	92,984,048	11,874,599
Rental and other deposits	2,887,399	3,428,838	3,434,417	438,595
Amounts due to fellow subsidiaries	678,296	756,994	977,998	124,896
Amounts due to associates	1,400,177	2,028,855	1,867,490	238,489
Amounts due to joint ventures	2,158,084	5,425,631	8,959,739	1,144,210
Amounts due to non-controlling shareholders	2,969,183	5,053,174	15,121,521	1,931,105
Amounts due to CITIC Group	265,845	—	—	—
Tax liabilities	21,888,194	29,741,619	34,880,729	4,454,470
Bank and other borrowings — due within one year	34,471,679	13,324,575	14,627,002	1,867,952
Notes payable — due within one year	5,814,611	17,099,222	16,277,376	2,078,715
	199,604,474	206,542,566	249,136,163	31,816,123
Net current assets	275,308,831	295,247,940	317,895,989	40,597,152
Total assets less current liabilities	**371,684,803**	**438,862,219**	**476,204,495**	**60,814,059**
Capital and reserves				
Share capital	90,420,438	90,420,438	90,420,438	11,547,211
Reserves	131,828,004	175,273,849	193,060,632	24,654,956
Equity attributable to owners of the Guarantor	222,248,442	265,694,287	283,481,070	36,202,167
Non-controlling interests	5,174,917	7,849,143	10,125,172	1,293,043
Total equity	**227,423,359**	**273,543,430**	**293,606,242**	**37,495,210**
Non-current liabilities				
Bank and other borrowings — due after one year	61,773,449	90,256,116	100,504,152	12,834,960
Notes payable — due after one year	71,760,801	57,558,524	64,540,446	8,242,187
Amounts due to non-controlling shareholders	869,939	3,799,801	2,013,003	257,072
Deferred tax liabilities	9,857,255	13,704,348	15,540,652	1,984,630
	144,261,444	**165,318,789**	**182,598,253**	**23,318,849**
	371,684,803	**438,862,219**	**476,204,449**	**60,814,059**

Summary Consolidated Statement of Cash Flows

	Year ended 31 December			
	2016	2017	2018	2018
	(audited) (HK$'000)	(audited) (HK$'000)	(audited) (HK$'000)	(unaudited) (US$'000)
Net cash generated from/(used in) operating activities	60,539,891	(42,037,411)	(8,190,887)	(1,046,023)
Net cash generated from/(used in) investing activities	15,113,857	(8,079,450)	(8,278,168)	(1,057,170)
Net cash (used in)/generated from financing activities	(32,394,422)	(13,140,639)	17,234,649	2,200,964
Net increase/(decrease) in cash and cash equivalents	43,259,326	(63,257,500)	765,594	97,771
Effect of foreign exchange rate changes, net	(8,323,835)	7,734,171	(4,120,309)	(526,187)
Cash and cash equivalents at end of year	154,983,386	99,460,057	96,105,342	12,273,206

Other Financial Data

	As at and for the year ended 31 December			
	2016	2017	2018	2018
	(HK$ millions, except margin and ratio data)			(US$ millions)
Adjusted EBITDA(1)	47,620	58,828	69,578	8,886
Adjusted EBITDA margin (per cent.)(2)	29.0	35.4	40.6	40.6
Net debt to equity ratio (per cent.)(3)	7.5	27.9	33.7	33.7

Notes:

(1) Adjusted EBITDA for any period consists of profit for the year before interest expense and other finance costs, taxes, depreciation and amortisation, excluding capitalised finance costs and exchange losses within cost of stock of properties recognised as expenses, gain arising from changes in fair value of investment properties, gain on disposal of investment properties, gain on disposal of subsidiaries, gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition, gain on acquisition of subsidiaries, impairment losses in respect of goodwill, share of profits of associates and joint ventures and net foreign exchange gains (losses). Adjusted EBITDA is not a standard measure under HKFRSs. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the year or any other measure of financial performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating Adjusted EBITDA, investors should consider, among other things, the components of Adjusted EBITDA such as revenue and operating expenses and the amount by which Adjusted EBITDA exceeds capital expenditures and other charges. The Group has included Adjusted EBITDA because the Group believes that it is a useful supplement to cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group's Adjusted EBITDA to EBITDA presented by other companies because not all companies use the same definition.

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

(3) Net debt comprises the total carrying amount of bank and other borrowings and notes payable, net of bank balances and cash. Equity comprises equity attributable to owners of the Guarantor.

OFFER STRUCTURE

The following is a description of the structure of the offering, which should be read in conjunction with the sections entitled "Risk Factors," and "Terms and Conditions of the Notes".

THE NOTES

The Notes will be issued by the Issuer. Based on and subject to the Terms and Conditions of the Notes, the Notes will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and the payment obligations of the Issuer under the Notes, the Receipts and the Coupons relating to them will, save for such exceptions as may be provided by applicable laws and subject to Condition 4(a), at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated indebtedness and monetary obligations. The Notes issued under the Programme will be unconditionally and irrevocably guaranteed by the Guarantor, whose obligations will, save for such exceptions as may be provided by applicable laws and subject to Condition 4(a), at all times rank at least equally with all the Guarantor's other present and future unsecured and unsubordinated indebtedness and monetary obligations, subject to the Terms and Conditions of the Notes.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The Issuer, the Guarantor and the Group believe that the following factors may affect their ability to fulfil their obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer, the Guarantor and the Group are not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer, the Guarantor and the Group believe may be material for the purpose of assessing the risks associated with the Notes issued under the Programme are also described below.

The Issuer, the Guarantor and the Group believe that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuer, the Guarantor or the Group to pay principal, interest (if any) or other amounts or fulfill other obligations on or in connection with any Notes may occur for other reasons and the Issuer, the Guarantor and the Group do not represent that the statements below regarding the risks of investing in or holding the Notes are exhaustive.

RISKS RELATING TO THE GROUP'S BUSINESSES

The Group depends significantly on the performance of the property markets in Mainland China, Hong Kong and Macau, particularly in a number of major cities in the PRC where the Group has or will have operations.

The property interests of the Group are subject to certain risks inherent in the ownership of, investment in and development of real estate properties. These risks include, but are not limited to, the cyclical nature of property markets, changes in general economic, business and credit conditions, changes in government policies or regulations affecting the real estate sector, building and other raw materials shortages, fluctuations in interest rates and the costs of labour and materials. The Group's property interests are also affected by the strength of the economies of the jurisdictions and regions in which it conducts its business, in particular the PRC.

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major cities in the PRC, including Shanghai and Beijing in the early 1990s, culminated in oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Beginning in the late 1990s, private residential property prices and the number of residential property development projects increased in major cities as a result of an increase in demand driven by domestic economic growth. In recent years, the overall demand for private residential properties in China, particularly properties in a number of major PRC cities (including those in which the Group holds properties) has grown rapidly. However, the market has also experienced fluctuations in property prices during the same period. There have been increasing concerns over housing affordability and the sustainability of market growth. In addition, demand for properties in the PRC has been adversely affected and will continue to be so affected by the macroeconomic control measures recently implemented by the PRC government and the current global economic downturn. Since 2010, the PRC government has promulgated multiple policies and measures on the domestic residential property market to curb or encourage perceived growth in the PRC property market. For example, on 26 January 2011, the General Office of the State Council issued the Notice Concerning Further Improving the Regulation of the Real Estate Market, which, among other things, raised the minimum down payment for second house purchases from 50 per cent. to 60 per cent., with the minimum lending interest rate at 110 per cent. of the benchmark rate. Furthermore, many cities have promulgated measures to restrict the number of houses one family is allowed to newly purchase in order to implement the aforesaid Notice, such as Guangzhou, Tianjin, Beijing, Shanghai, Suzhou, Qingdao, Jinan, Chengdu and Foshan. In March 2015, such minimum down payment requirement for second house purchases was reduced to 40 per cent. by the PRC government. There can be no assurance that the demand for new residential properties, where the Group has or will have operations, will continue to grow in the future or that there will not be over-development or market downturns in the domestic residential property sector. Any such adverse development and the ensuing decline in property sales or decrease in property prices in the PRC may adversely affect the Group's business, financial condition and results of operations.

Since the Asian economic downturn in 1997, the Hong Kong property market has been volatile, with significant fluctuations in property prices and transaction volumes. Similarly, the residential property market in Macau has been volatile in recent years.

The Group depends significantly on the performance of the Mainland China, Hong Kong and Macau property markets, particularly in major cities where the Group has made substantial investments, as well as other cities where it is developing properties. As the Group continues to be dependent, to a significant extent, on the overall state of the PRC property sector, a decline in the performance of this property sector could adversely affect the Group's revenue. Any material adverse development with respect to the property markets in Mainland China, Hong Kong or Macau could have a material adverse effect on the Group's business, financial condition and results of operations.

The relevant PRC tax authorities may challenge the basis on which the Group calculates its LAT obligations.

Under PRC tax laws and regulations, subsidiaries of the Guarantor in the PRC are subject to LAT, which is collected by local tax authorities. All income from the sale or transfer of land use rights relating to state-owned land, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30 per cent. to 60 per cent. of the appreciation value as defined by the relevant tax laws.

On 28 December 2006, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises, which came into effect on 1 February 2007 (the "**LAT Notice**"). Under the LAT Notice, provincial tax authorities can formulate their own implementation rules according to the LAT Notice and local situation. In the event that the local authorities of the cities in which the Group undertakes development projects promulgate implementation rules that require the Group to settle all unpaid LAT, it could adversely affect the Group's business, financial condition and results of operations.

Certain exemptions to LAT are available for the sale of ordinary standard residential houses if the appreciation value does not exceed 20 per cent. of the total deductible items as defined in the relevant tax laws. The Group's management believes that it estimates and makes provision for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations, but it only pays a portion of such provision each year as required by the local tax authorities. Although the Group's management believes that such provisions are sufficient, there can be no assurance that the tax authorities will agree with the basis on which the Group calculates its LAT obligations. In the event that the local tax authorities believe that a higher rate of LAT should be paid, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group may not always be able to replenish its land bank.

The Group derives its revenue principally from the sale of properties that it has developed. To have a steady stream of developed properties available for sale and growth in the long term, the Group needs to replenish and increase its land bank with properties that are suitable for development. Its ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond its control.

The availability of substantially all of the land in Mainland China is controlled by the PRC government. Thus the PRC government's land policies have a direct impact on the Group's ability to acquire land use rights for development and its cost of acquisition. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers obtain land for property development. The PRC government also controls land supply through zoning, land usage regulations and other means. All of these measures further intensify the competition for land in China among property developers. As such, any subsequent re-zoning by the PRC government could adversely affect the Group's ability to obtain land use rights. If the Group fails to acquire sufficient land bank suitable for development in a timely manner or at acceptable prices, its prospects and competitive position may be adversely affected, and its business, financial condition and results of operations may be materially adversely affected.

The Group faces a number of development, construction and approval risks associated with the development of properties. The Group's properties may not be completed as scheduled and may not generate the levels of expected revenue or contemplated investment returns.

There are a number of construction, financing, operating and other risks associated with construction and property developments. Projects of the types undertaken by the Group typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with third-party contractors, accidents, changes in governmental priorities and other unforeseen circumstances. Any of these circumstances could give rise to delays in the completion of construction or cost overruns.

In relation to the Group's property development projects in the PRC, certain government approvals, permits, licences or consents, such as the permit to commence pre-sales, will need to be obtained. Delays in the process of obtaining or renewal of, or failure to obtain or renew, the requisite licences, permits or approvals from government agencies or authorities, may increase the cost or may delay or prevent the commencement of a project, or may cause interruption in the business operation of project companies, which could adversely affect the financial condition of the Group.

Construction delays may result in the loss of revenue. Failure to complete construction according to specifications may result in liabilities, reduced efficiency and lower financial returns. There can be no assurance that the Group's projects will continue to be completed substantially on schedule or that future projects will be completed on time, or at all, and generate satisfactory returns.

In addition, the Group engages CSCECL and certain third-party contractors to provide various services including construction, piling and foundation, building and property fitting-out work, interior decoration, installation of air-conditioning units and elevators. There is no assurance that the services rendered by any of the third-party contractors will be satisfactory. The Group is also exposed to the risk that a contractor may require additional capital in excess of the price originally tendered to complete a project, and it may have to bear such additional amounts. Furthermore, there is a risk that major contractors may experience financial or other difficulties, which may affect their ability to carry out construction work, thus delaying the completion of the Group's development projects or resulting in additional costs for the Group. All of these factors could materially and adversely affect the Group's business, financial condition, results of operations and reputation.

The property development business is subject to customer 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 30 January 2000 and was amended on 7 October 2017 and 23 April 2019, 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. The Group acts as general contractor for a majority of property projects, and in such cases the Group is directly responsible for construction quality and is generally not able to seek reimbursement from third-party contractors where customer claims are brought against the Group under its quality warranties. The Group cannot guarantee that it will not receive customer claims in relation to the quality of the Group's projects. If a significant number of claims were brought against the Group under the Group's quality warranties and if the Group was unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the money retained by the Group to cover the Group's payment obligations under the quality warranties is not sufficient, the Group could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm the Group reputation, and materially and adversely affect the Group's business, financial condition and results of operations.

Changes to laws and regulations with respect to pre-sales may materially affect the Group's business, cash flow position and financial condition.

The Group depends on revenues from the pre-sales of its properties as an important source of funding for its property projects. There is no assurance that the Group will be able to continue achieving sufficient pre-sales to fund a particular development. Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence the pre-sale of properties and may only use pre-sale proceeds to finance the development of such properties. In August 2005, PBOC recommended in a report entitled "2004 Real Estate Financing Report" the discontinuation of the practise of the pre-sale of unfinished properties because such practises, in the PBOC's opinion, create significant market risks and generate transactional irregularities. Although this and similar recommendations have not been adopted by the PRC government, there can be no assurance that the PRC government will not adopt such recommendations and ban the practise of the pre-sale of unfinished properties or implement further restrictions on the pre-sale practise, such as imposing additional conditions for obtaining a pre-sale permit or imposing further restrictions on the use of pre-sale proceeds. Any restriction on the Group's ability to pre-sell its properties, including any increase in the amount of up-front expenditure it must incur prior to obtaining a pre-sale permit or any restriction on its ability to utilise the pre-sale proceeds, including future changes to laws and regulations governing the use of pre-sale proceeds, would extend the time required to recover the Group's capital outlay and could require it to seek alternative means to finance the various stages of its developments, which, in turn, could materially and adversely affect its business, financial condition, results of operations and cash flow position.

The Group may not be able to effectively manage its expansion and growth.

The Group has grown rapidly in the past. The Group's property sales (including those of its joint ventures and associates) grew from approximately HK$232.1 billion in 2017 to approximately HK$301.2 billion in 2018. As it continues to acquire properties for development and management, whether through internal growth, mergers and acquisitions or otherwise, such expansion may place a strain on the Group's managerial, operational and financial resources and will contribute to an increase in its financing requirements. In 2015, the Group completed the acquisition of a property portfolio in 11 major cities in the PRC and in London with a total GFA of approximately 11 million square metres from CSCECL. In 2016, the Group completed another acquisition of a property portfolio across 25 major economic regions in the PRC with a total GFA of approximately 32 million square metres from CITIC Corporation Limited and CITIC Pacific Limited. The Group's planned expansion is based on its forward-looking assessment of market prospects. There is no assurance that the Group's assessments will turn out to be accurate or that the asset acquisition will materialise. Any failure in effectively managing the Group's expanded operations may materially and adversely affect its business, financial condition and results of operations.

The Group may face challenges in integrating the property projects acquired pursuant to the acquisition of assets.

The Group completed two significant acquisitions in 2015 and 2016 involving property projects of approximately 43 million square metres. There is no assurance that the Group will be able to integrate such acquired assets successfully. In particular, any discovery of information relating to such acquired assets including local legal and regulatory requirements, may have an adverse impact on such acquired assets. In addition, managing and operating an enlarged property portfolio may divert management's attention from the operation and management of the Group's existing businesses. If the Group is not able to realise the benefits of such asset acquisitions envisaged, or to successfully integrate such acquired assets into its existing property portfolio, the Group's business, financial position and results of operations may be materially and adversely affected.

The Group's businesses require substantial capital investment.

The Group may require additional financing to fund investment in stock of properties and deposits for land use rights for property development to support the future growth of its business and to refinance existing debt obligations. The Group's core businesses may require substantial capital investment, particularly for its property development and property investment segments. The Group has historically recorded negative cash flow from operating activities as a result of the Group's significant and rapid growth in the scale of development activities and business operations, and there is no assurance that the Group will be able to generate positive operating cash flow in the future. Negative operating cash flow requires the Group to obtain sufficient external financing to meet the financial needs and obligations. The Group has historically required and may in the future continue to require external financing to fund its capital expenditures. The Group's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, interest rates, credit availability from banks or other lenders, investor confidence in the Group, success of the Group's businesses, provisions of tax and securities laws that may be applicable to the Group's efforts to raise capital and political and economic conditions in Mainland China, Hong Kong and Macau. There can be no assurance that additional financing, either on a short-term or a long-term basis, will be made available or obtained on terms favourable to the Group, failing which the Group's business, financial position and results of operations may be materially and adversely affected.

The fair value of the Group's investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact its profitability.

The Group is required to reassess the fair value of its investment properties at the end of every reporting period for which it issues financial statements. Under HKFRSs, gains or losses arising from changes in the fair value of investment properties are included in the Group's income statement in the period in which they arise. The significant increase in the fair market value of the Group's investment properties in the years ended 31 December 2017 and 2018 was primarily due to the overall appreciation of the existing investment properties and the addition of new investment properties. Fair value gains or losses do not, however, change the Group's cash position as long as the relevant investment properties are held by the Group and, therefore, do not increase its liquidity in spite of the increased profit. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. There can be no assurance that changes in the market conditions will continue to create fair value gains on the Group's investment properties at the previous levels or at any level at all, or that the fair value of the Group's investment properties will not decrease in the future. In particular, the fair value of its investment properties could decline in the event that the PRC property industry experiences a downturn as a result of PRC government policies aimed at "cooling-off" the PRC property market, or the global economic downturn and financial market crisis since mid-2008. Any significant decreases in the fair value of the Group's investment properties may materially and adversely impact its business, financial position and results of operations.

The Group may be forced to forfeit its land use rights without compensation if the Group fails to comply with the terms of the land grant contracts.

Under PRC laws, if a developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, designated land use or the time for commencement and completion of the development of the land), the relevant local government authority may give a warning to, or impose a penalty on, the developer or require the developer to forfeit the land use rights. Under the current PRC laws and regulations, if a developer fails to pay any outstanding land grant premium by the stipulated deadline, it may be subject to a late payment penalty calculated on a per-day basis. In addition, if a developer fails to commence development of a property project within the stipulated period as required under the current PRC laws without the approval from the relevant PRC land bureau, the relevant PRC land bureau may serve a decision on the collection of the charges for idle land to the developer and impose an idle land fee of up to 20 per cent. of the land grant premium unless such failure is caused by a government action or a force majeure event. Even if the commencement of the land development complies with the land grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or if the total capital expenditure is less than 25 per cent. of the total amount expected to be invested in the project as promulgated in the project proposal submitted to the government at the project registration stage and the suspension of the development of the land is more than one year without government approval, the land will still be treated as idle land. The Notice on Promoting Economisation of Land Use issued by the State Council of China (the "**State Council**") in January 2008 further confirmed the idle land fee at 20 per cent. of the land grant premium. If a developer fails to commence such development for more than two years, the land is subject to forfeiture without compensation to the PRC government unless the delay in development is caused by government actions or force majeure. Such circumstances may lead to possible forfeiture of land or delays in the completion of a project, which could materially and adversely affect the Group's business, financial position and results of operations.

Resettlement arrangements relating to the Group's future and potential developments may be subject to negotiation, and any failure to reach an agreement may affect the Group's schedule to develop the relevant projects.

Under PRC laws and regulations, the relevant local government authority is responsible for the expropriation of the lands and buildings and is required to pay compensation to residents of a site to be cleared prior to construction. If the relevant local government authority responsible for the expropriation and the party subject to the expropriation fail to reach agreement for compensation and resettlement within certain period, the relevant local government authority may make the final decision on the plan of expropriation. If the party subject to the expropriation is not satisfied with such decision, it may initiate administrative proceedings in court which may cause delays to the Group's development schedule for the relevant project. In addition, any such delays to the Group's development schedule may lead to an increase in costs and a delay in the expected cash inflow resulting from pre-sales of the relevant project, which may in turn materially and adversely affect the Group's business, financial position and results of operations.

The Group is exposed to general risks associated with the ownership and management of real property.

Property investment is generally illiquid, limiting the ability of an owner or a developer to convert property assets into cash at short notice or requiring a substantial reduction in the price that might otherwise be sought for such assets to ensure a quick sale. Such illiquidity also limits the ability of the Group to vary its portfolio in response to changes in economic or other conditions. Moreover, the Group may face difficulties in securing timely and commercially favourable financing in asset-based lending transactions secured by real estate due to its illiquidity.

Property investment is subject to risks incidental to the ownership and management of residential, office and retail properties, including, among other things, competition for tenants, changes in market rents, inability to renew leases or re-let space as existing leases expire, inability to collect rent from tenants due to bankruptcy or insolvency of tenants or otherwise, inability to dispose of major investment properties for the values at which they are recorded in the financial statements, increased operating costs and the need to renovate, repair and re-let space periodically and to pay the associated costs, which may in turn cause material adverse effect on the Group's business, financial position and results of operations.

The Group has provided guarantees to secure obligations of purchasers of its properties for repayments. Defaults by a significant number of purchasers would adversely affect the Group's financial condition.

In the PRC, the Group has provided short-term pre-registration guarantees in favour of banks which provided mortgage facilities for purchasers of the Group's properties to secure such purchasers' repayment obligations. See "*The Group — Property Development — Property Development Process — Payment method and mortgage financing*". As at 31 December 2018, the Group's outstanding guarantees in respect of the mortgage loans of its customers amounted to approximately HK$45.9 billion. Under the terms of the pre-registration guarantees, if, during the term of the guarantee (from the date of the mortgage up to typically either submission of the relevant property ownership certificates to the mortgagee bank or completion of the registration of the mortgage, which, when submission of relevant ownership certificates is required, usually lasts for up to 18 months, but is shorter in other situations), a borrower defaults on its repayment obligation, the Group will be liable to pay to the banks the amount owing to them from the purchaser, but the Group will have the right to take possession of and re-sell the mortgaged property. Defaults by a significant number of the Group's purchasers for whom the Group has provided guarantees could materially and adversely affect the Group's business, financial position and results of operations.

Potential liability for non-compliance with environmental laws and regulations could result in substantial costs.

The Group is subject to a variety of laws and regulations concerning the protection of health and environment. The particular environmental laws and regulations that apply to any given project development site vary according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. As the PRC government increases its focus on the environment, the Group's projects may be more strictly reviewed and inspected, and approval processes for future projects or any alteration to existing projects may be prolonged. In addition, the Group may incur ongoing costs of compliance with environmental laws and regulations in the context of its property management business. Efforts taken to comply with environmental laws and regulations may result in delays in development, cause the Group to incur substantial compliance costs and prohibit or severely restrict project development activity in environmentally- sensitive regions or areas.

As required by PRC laws and regulations, projects with GFA in excess of 50,000 square metres or in environmentally sensitive regions or areas developed by the Group are required to undergo environmental assessments and the Group is required to submit an environmental impact assessment document to the relevant governmental authorities for approval before commencement of its construction. For other projects, the Group is required to file the environmental impact registration form for approval. It is possible that there are potential material environmental liabilities of which the Group is unaware. In addition, it cannot be assured that the Group's operations will not result in environmental liabilities or that the Group's contractors will not violate any environmental laws and regulations in their operations that may be attributed to the Group, and in the event of the occurrence of such liabilities and such violation, the Group's business, financial position and results of operations may be materially and adversely affected. Investors should refer to the section entitled "*The Group — Environmental and Safety Matters*" for more information in respect of environmental matters.

The Group's business is sensitive to global economic conditions. A severe downturn in the global economy could materially and adversely affect the revenue and results of operations of the Group.

Recent global market and economic conditions have been challenging with tight credit conditions and slow recovery in most major economies. The global economic slowdown and turmoil in the global financial markets have had a negative impact on the world economy, which in turn has affected the PRC real estate industry and many other industries.

Continued concerns about the systemic impact of energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets have contributed to increased market volatility and diminished expectations for economic growth around the world. The outlook for the world economy and financial markets remains uncertain. Recent improvements in economic growth remain unevenly distributed across countries and regions. Economic prospects for many commodity exporters remain particularly challenging. Negligible growth in per capita GDP is anticipated in several parts of Africa, Western Asia, and Latin America and the Caribbean. Growth in the Eurozone is predicted to have peaked in 2017. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. Mainland China's economic growth may slow down due to weakened exports.

The uncertainty in the economic outlook has contributed to significant levels of volatility. Any recurrence of a global financial crisis, which could potentially be sparked by the recent market volatility attributed to concerns over imposition of punitive tariffs on imports from China caused by trade war and advocacy of protectionism, especially from the US market under its current administration, may cause a slowdown in the PRC economy. Continued turbulence in the international markets and prolonged declines in consumer spending, as well as any slowdown of economic growth in Mainland China, may continue to adversely impact home owners and potential property purchasers, which may in turn materially and adversely affect the business, results of operations and financial condition of the Group.

The Group's financing costs are subject to changes in interest rates.

Changes in interest rates have affected and will continue to affect the Group's financing costs and, ultimately, its results of operations. As at 31 December 2018, the Group had total borrowings of approximately HK$195.9 billion (inclusive of bank and other borrowings and notes payables only), and the costs of certain Renminbi, Hong Kong dollar and British Pound denominated borrowings, representing approximately 48.9 per cent. of the Group's borrowings, were subject to changes in interest rates. As at 31 December 2018, the average interest rate on the Group's outstanding Renminbi borrowings was substantially higher than the average interest rate on its outstanding Hong Kong dollar borrowings. There can be no assurance that interest rates will not rise in the PRC or in Hong Kong. To the extent that interest rates increase in respect of any of the Group's borrowings (in particular, its bank borrowing with floating rates) and the Group is not able to pass on such costs to purchasers of its properties, the Group's business, financial condition and results of operations could be materially and adversely affected. Any further increase in these interest rates will increase the Group's financing costs and may materially and adversely affect its business, financial condition and results of operations.

The Group may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the US dollar.

Non-Renminbi denominated borrowings together accounted for approximately 50.0 per cent. of the Group's total borrowings as at 31 December 2018, while substantially all of the revenue generated by the Group's PRC subsidiaries and their assets are denominated in Renminbi. Hence, the Group has foreign exchange risk from the possibility of a depreciation of Renminbi against other currencies.

Pursuant to reforms of the exchange rate system announced by the PBOC on 21 July 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 US dollar. Further, from 18 May 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate, effective on 21 May 2007. This floating band was increased to 1.0 per cent. on 16 April 2012 and further increased to 2.0 per cent. on 27 March 2014. This allows the Renminbi to fluctuate against the US dollar by up to 2.0 per cent. above or below the central parity rate published by PBOC. Other governments have renewed pressure on the PRC government to alter its exchange rate system, and it is possible that the PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. There are limited hedging instruments available to reduce the Group's exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, the Group does not have any hedging arrangements in place to reduce its exposure to such risks. If such reforms were implemented and resulted in a devaluation of the value of the Renminbi against the US dollar, such a devaluation could adversely affect the value, translated or converted into the US dollars or otherwise, of the earnings of the Group's PRC subsidiaries and could also cause the amounts due under the Guarantor's US dollar-denominated debt to increase (measured in Renminbi terms). Similarly, as certain of the Group's borrowings are denominated in Hong Kong dollar and British Pound, the Group is also exposed to the possibility of a depreciation of Renminbi against these currencies. In the event of any such negative effect caused by exchange rate fluctuations, particularly if any such exchange rate fluctuation persists, the Group's business, financial position and results of operations may be materially and adversely affected.

The Group's controlling shareholders are able to control the Group's corporate policies and direct the outcome of corporate actions.

As at 31 December 2018, approximately 55.99 per cent. of the Guarantor's issued and outstanding shares were beneficially owned by COHL together with COHL's wholly-owned subsidiary, Silver Lot Development Limited. COHL in turn is wholly owned by CSCECL, a company listed on the Shanghai Stock Exchange since 2009. As at 31 December 2018, approximately 56.28 per cent. of CSCECL's shares was owned by its parent company, CSCEC, which is a state-owned construction group that is one of the 97 core state-owned enterprises under the direct supervision of the State-owned Assets Supervision and Administration Commission ("**SASAC**") of the State Council of the PRC government. The Guarantor, therefore, is ultimately controlled by CSCEC. Subject to compliance with applicable laws, by maintaining such ownership, COHL, CSCECL and CSCEC are able to control the Group's corporate policies, appoint and/or replace the Group's directors and officers and vote on corporate actions requiring shareholders' approval. The strategic goals and interests of COHL, CSCECL and CSCEC may not always be aligned with the Group's strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. Likewise, the Group benefits from financial and other support provided by its controlling shareholders and no assurance can be given that such support will continue to be available in the future. The interests of the Group's controlling shareholders may differ from those of the holders of the Notes.

The Group's success depends on the continuing efforts of its senior management team and other key personnel and its business may be harmed if the Group loses their services.

The Group's future success depends heavily on the continuing services of the members of its senior management team. If one or more of the Group's senior executives or other key personnel are unable or unwilling to continue in their present positions, the Group may not be able to replace them easily or at all, its business may be disrupted and its financial condition, results of operations and prospects may be materially and adversely affected. Competition for senior management and key personnel is intense while the pool of qualified candidates is very limited, and the Group may not be able to retain the services of senior executives or other key personnel, or attract and retain high-quality senior executives or other key personnel in the future. Furthermore, the Group may lose the services of senior executives or other key personnel if the Guarantor's controlling shareholders (one of which, CSCEC, is a core state-owned enterprise) choose to shuffle the management teams of such shareholders' subsidiaries or otherwise choose to change the composition of the Guarantor's management and key personnel team. In addition, if any member of the senior management team or any other key personnel joins a competitor or forms a competing company, the Group may lose customers and key professionals and staff members, which may in turn materially and adversely affect the Group's business, financial position and results of operations.

The terms on which mortgages are available, if at all, may affect the Group's sales levels.

Most of the Group's purchasers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under PRC law, monthly mortgage payments are limited to 50 per cent. of an individual borrower's monthly income and all monthly debt service payments of an individual borrower are limited to 55 per cent. of such borrower's monthly income. In addition, to curtail the overheating of the property sector, between 2006 and 2008, the PRC government implemented, among other things, regulations that increased the down payment requirement for mortgage loans in respect of residential and commercial properties. Since September 2007, for second home buyers that use mortgage financing, the PRC government has increased the minimum down payment to 40 per cent. of the purchase price with maximum mortgage loan interest rates at 110 per cent. of the relevant PBOC benchmark one-year bank lending interest rate. Beginning in the second half of 2008, in order to mitigate the impact of the global economic slowdown, the PRC government lowered the minimum interest rate for individual mortgage loans to 70 per cent. of the corresponding PBOC benchmark bank lending rates. Further, the minimum down payment ratio for residential properties was lowered to 20 per cent. for units with a unit floor area of less than 90 square metres per unit. Since 17 April 2010, the PRC government has increased the minimum down payment requirement for second-home buyers that use mortgage financing to 50 per cent. of the purchase price with maximum mortgage loan interest rates at 110 per cent. of the relevant PBOC benchmark one-year bank lending interest rate. In January 2011, the General Office of the State Council issued the Notice on Further Improving the Regulation of the Real Estate Market, under which a household that borrows a mortgage loan for the purchase of a second residential property must make a down payment of not less than 60 per cent. of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate. Such down payment requirement was reduced to 40 per cent. in March 2015. In February 2016, PBOC and the CBRC issued the Circular of the People's

Bank of China and the China Banking Regulatory Commission on Issues concerning Adjusting the Individual Housing Loan Policies, according to which in the cities without restrictive measures for house purchase, the minimum down payment for the purchase shall, in principle, be 25 per cent. of the house price with regard to the commercial individual housing loans to resident households for the first-time purchase of common residential houses, and the said percentage may be lowered by five percentage points in different regions; with respect to resident households that own a residential house with unsettled house purchase loans and apply for commercial individual housing loans again to purchase common residential houses for improving living conditions, the minimum down payment for the purchase shall be at least 30 per cent. of the corresponding house price.

In March 2017, local governments in certain major cities in the PRC, such as Beijing, Hangzhou and Hebei, introduced further policies to restrain property purchases for specialisation purposes and prevent property prices from rising too quickly. Such policies include suspending the provision of individual housing loans with the term of more than 25 years, raising the minimum percentage of down payment of the purchase price and strictly restricting purchasers from acquiring second (or more) residential property. If the availability or attractiveness of mortgage financing is reduced or limited, many of the Group's prospective customers may not be able to purchase the Group's properties and, as a result, the Group's business, liquidity and results of operations could be materially and adversely affected.

In line with industry practise, the Group provides guarantees to banks for mortgages they offer to purchasers. If there are changes in laws, regulations, policies and practises that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales. Such difficulties in financing could result in a substantially lower rate of pre-sales of the Group's properties, which could adversely affect its business, financial condition and results of operations. The Group cannot assure investors that such changes in laws, regulations, policies or practises will not occur in the future, and any such changes could materially and adversely affect the Group's business, financial position and results of operations.

Certain of the Group's businesses are conducted through joint ventures and associates.

The Group has substantial investments in joint ventures and associates that develop, own and operate properties in the PRC. Although the Group has historically maintained a certain level of control over the projects through ownership of a controlling interest or management in order to impose established financial control, management and supervisory techniques, property investment and development in the PRC may often involve the participation of local partners in the PRC, and joint ventures and associates in the PRC may involve special risks or problems associated with joint venture and associate partners, including, among other things, reputational issues, inconsistent business interests or one or more of the joint venture and associate partners experiencing financial difficulties and exposing the Group to credit risk. Should such problems occur in the future they could have a material adverse effect on the Group's business, financial position, results of operations and prospects.

Any unauthorised use of a brand or trademark of the Group may adversely affect its business.

The Group uses its brand name "China Overseas Property" ("中海地產") in the PRC and owns certain trademarks that it uses in its business. The Group relies on the PRC intellectual property and anti-unfair competition laws and contractual restrictions to protect its brand name and trademarks. The Group's management believes its brand, trademarks and other intellectual property rights are important to the success of the Group's business. Any unauthorised use of its brand, trademarks and other intellectual property rights could harm the Group's competitive advantages and business. Historically, Mainland China has not protected intellectual property rights to the same extent as certain other countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in the PRC. Monitoring and preventing unauthorised use is difficult. The measures taken by the Group to protect its intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in Mainland China and abroad is uncertain and evolving, and could involve substantial risks to the Group. If the Group is unable to adequately protect its brand, trademarks and other intellectual property rights, its reputation may be harmed and its business, financial position and results of operations may be materially and adversely affected.

The Group is subject to uninsured risks.

The Group maintains insurance coverage on all of its properties under construction, third party liabilities and employer's liabilities. The insurance policies generally cover the period from the commencement of construction of the properties by the Group up to the transfer of the completed properties to its customers. However, certain types of losses due to events such as war, civil disorder, acts of terrorism, earthquakes, typhoons, flooding, and other natural disasters are not covered as they are either uninsurable or not economically insurable. This practise is consistent with what the Group's management believes to be the industry practise in Mainland China, Hong Kong and Macau. Accordingly, there may be circumstances in which the Group will not be covered or compensated for certain losses, damages and liabilities, which may in turn materially and adversely affect its business, financial position and results of operations.

RISKS RELATING TO THE PRC

Policy initiatives in the financial sector to further tighten lending requirements for property developers may limit the Group's flexibility and ability to use bank loans or other forms of financing to finance the Group's property developments and therefore may require the Group to maintain a relatively high level of internally sourced cash.

The Group's ability to arrange adequate financing for land acquisitions or property developments on terms that will allow it to earn reasonable returns depends on a number of factors, many of which are beyond the Group's 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, which, among other things:

- forbid PRC commercial banks from extending loans to property developers to finance land premiums;

- restrict PRC commercial banks from extending loans for the development of luxury residential properties;

- restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;

- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans; and

- forbid property developers from using borrowings obtained from any local banks to fund property developments outside that local region.

In addition, the PBOC increased the reserve requirement ratio for commercial banks several times between 2006 and 2008 to curtail the overheating of the property sector. However, between September 2008 and December 2008, in order to stimulate the PRC economy, the PBOC decreased the reserve requirement ratio for commercial banks four times, from 17.5 per cent. to 15.5 per cent. In addition, PBOC has adjusted the reserve requirement ratio for commercial banks 21 times since January 2010. The reserve requirement ratio currently is 16.5 per cent., which took effect on 1 March 2016. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Further increases in the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including the Group, by commercial banks in Mainland China.

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

The Group's business is subject to extensive government regulation and is susceptible to policy changes in the PRC property sector.

The Group's business is subject to extensive government regulation. As with other PRC property developers, the Group must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector. Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be refined over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies. In addition, the PRC government may adopt additional and more stringent industry policies, regulations and measures in the future. If the Group fails to adapt its operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt the Group's business or cause it to incur additional costs, the Group's business prospects, results of operations and financial condition may be materially and adversely affected.

The PRC government may adopt further measures to slow down growth in the property sector.

Along with the economic growth in Mainland China, investments in the property sector have increased significantly in the past few years. In response to concerns over the increase in property investments, the PRC government has introduced various policies and measures to curtail property developments from 2003.

See "*PRC Regulations*" for further details.

However, there can be no assurance that the PRC government will not adopt additional and more stringent measures in the future, which could further slow down property development in Mainland China and adversely affect the Group's business and prospects.

The PRC government and local government authorities will continue to exercise a substantial degree of control and influence over the PRC economy and property market and any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and the Group's ability to make corresponding adjustments, may result in a material adverse effect on the Group's business and operating results. In particular, decisions taken by the PRC government concerning economic policies or goals that are inconsistent with the Group's interests could adversely affect its operating results.

Property development in the PRC is still at an early stage and lacks adequate infrastructure support.

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. The Group cannot predict how much and when demand will develop, as many social, political, economic, legal and other 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.

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

The Group faces risks related to the pre-sale of properties, including the risk that property developments are not completed.

The Group faces risks relating to the pre-sale of properties. For example, the Group may fail to complete a fully or partially pre-sold property development, in which case it would find itself liable to purchasers of pre-sold units for losses suffered by them. The Group cannot assure investors that these losses would not exceed any deposits that may have been made in respect of the pre-sold units. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to compensation for late delivery. If the 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 per cent. from the GFA originally indicated in the purchase contract, the purchaser will be entitled to terminate the purchase contract and claim damages. Any termination of the purchase contract as a result of the Group's late delivery of properties will have a material adverse effect on the Group's business, financial condition and results of operations.

Since 2005, proposals recommending a ban on the practise of pre-selling uncompleted properties have been introduced by various entities in the PRC, including the PBOC and the NDRC. These recommendations have not been adopted by any PRC governmental authority and have no mandatory effect. However, there can be no assurance that the PRC governmental authority will not ban the practise of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Proceeds from the pre-sale of the Group's properties are an important source of financing for the Group's property developments. For the years ended 31 December 2016, 2017 and 2018 the Group had pre-sales deposits (equivalent to contract liabilities in adoption of HKFRS 15) of approximately HK$82.3 billion, HK$77.9 billion and HK$93.0 billion, respectively. Consequently, any restriction on the Group's ability to pre-sell its properties, including any increase in the amount of up-front expenditure that it must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of its capital outlay and would result in it needing to seek alternative means to finance the various stages of its property developments. This, in turn, could have an adverse effect on the Group's business, cash flow, results of operations and financial condition.

Increasing competition in the PRC property market may adversely affect the profitability of the Group.

In recent years, a large number of property developers have undertaken property development and investment projects across the PRC. These include overseas property developers (including a number of leading Hong Kong property developers) and local developers in the PRC, many of whom have greater financial and other capital resources, greater market share or greater name recognition than the Group.

Intensified competition between property developers may result in increased costs for land acquisition, oversupply of properties and a slowdown in the approval process for new property developments by the relevant government authorities, all of which may adversely affect the business of the Group.

Furthermore, the Group's property development operations face competition from both international and local operators with respect to factors such as location, facilities and supporting infrastructure, service and price. The Group competes with both local and international companies in capturing new business opportunities in the PRC, Hong Kong and Macau. Some of these companies have significant financial resources, marketing and other capabilities. In Mainland China, Hong Kong and Macau, some of the local companies have extensive local knowledge and business relationships and a longer operational track record in the relevant local markets than the Group. International companies are able to capitalise on their overseas experience to compete in the Mainland China, Hong Kong and Macau markets. There can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors or that increased competition with respect to the Group's activities may not have a material adverse effect on the financial condition and operating results of the Group.

The PRC property market has experienced consolidation.

Consolidation in the PRC property market in recent years has resulted in smaller property developers merging or otherwise combining their operations in order to enjoy economies of scale and enhance their competitiveness. Any further consolidation in the property sector in the PRC may intensify competition among property developers and the Group may have to compete with competitors with increased financial and other resources, including, but not limited to, land banks and management capabilities. Such consolidation could potentially place the Group at a competitive disadvantage with respect to land or development negotiations, scale, resources and pricing of its properties.

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business.

Historically, the Group generated revenue from its operations in the PRC. The Group's financial condition, operating results and prospects will, accordingly, be subject to economic, political and legal developments in the PRC as well as in the economies in the surrounding region.

The PRC economy differs from the economies of most developed countries in many respects, including the:

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

- allocation of resources.

While the PRC economy has experienced significant growth in the past 20 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 have a negative effect on the Group's operations. For example, the Group's financial condition and operating results may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-orientated economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The 18th National Congress of the Communist Party of China, which convened in November 2012, resulted in certain changes to government policies or regulations such as removing the 70 per cent. lower limit of the benchmark rate on loan interest rate and allowing financial institutions to determine the interest rate in their sole discretion based on market conditions.

The legal system in the PRC is less developed than in certain other countries and laws in the PRC may not be interpreted and enforced in a consistent manner.

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practises in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group and its joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have an adverse effect on the Group's prospects, financial condition and operating results.

Natural disasters, acts of God, or recurrence of severe acute respiratory syndrome, or SARS, avian influenza (H5N1 virus) or another widespread public health problem could adversely affect the Group's business, financial condition and results of operations.

Several countries and regions in Asia, including Mainland China, Hong Kong and Macau and elsewhere, have suffered from outbreaks of diseases like SARS or avian influenza over the past few years, which had a significant adverse impact on the economies of many of the countries affected. In addition, some regions in Mainland China, including the cities where the Group operates, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, and drought. For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in a tremendous loss of lives and destruction of assets in the region. Any future occurrence of natural disasters, epidemics and other acts of God which are beyond the control of the Group or any renewed outbreak of SARS, pandemic avian influenza or another widespread public health problem in Mainland China, Hong Kong and Macau could have a material adverse effect on the Mainland China, Hong Kong and Macau economies and the property market generally, and on the Group's business, financial condition and results of operations.

Facts and statistics in this Offering Circular relating to the PRC economy and the PRC real estate industry may not be reliable.

Facts and statistics relating to the PRC economy and the PRC real estate industry contained in this Offering Circular have been compiled from various publicly available official publications and industry-related sources which the Issuer or the Guarantor has no reason to believe is false or misleading or that any fact has been omitted that would render such information false or misleading. However, the quality or reliability of official publications and sources cannot be guaranteed. In addition, statistics derived from official sources may not be prepared on a comparable basis. While the Issuer and the Guarantor believe that the sources of the information are appropriate sources and have taken reasonable care in extracting and reproducing such information, they have not been independently verified by the Issuer, the Guarantor, any other members of the Group, the Joint Lead Managers, or any of their affiliates or advisors. It cannot be assured that such facts and statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Due to possibly flawed or ineffective collection methods or discrepancies between official publications and market practise and other problems, the statistics herein may be inaccurate or may be incomparable to statistics produced for other economies and should not be unduly relied upon by the investors in purchasing the Notes or otherwise.

The Guarantor may be deemed a PRC resident enterprise under the new PRC Corporate Income Tax ("CIT") Law, which may subject it to the PRC taxation on its worldwide income. In addition, if the Issuer is deemed as a PRC resident enterprise, it would be required to withhold taxes on interest it pays on the Notes and the investors of the Notes would be required to pay taxes on gains realised from the sale of the Notes.

The Issuer is a Cayman Islands holding company, and the Guarantor is a Hong Kong holding company with a substantial part of its operations conducted in Mainland China through the Guarantor's operating subsidiaries. Under the new PRC CIT Law that took effect on 1 January 2008, as amended in February 2017 and December 2018, enterprises established outside Mainland China whose "de facto management bodies" are located in Mainland China are considered "resident enterprises" for PRC tax law purposes and will generally be subject to the uniform 25 per cent. CIT rate as to their worldwide income. Under the implementation regulations issued by the State Council, relating to the new PRC CIT Law, a "de facto management body" is defined as the body that has the significant and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated The Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management ("**Circular 82**") which clarified the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. These criteria include: (i) the enterprise's day-to-day operations management is primarily exercised in Mainland China, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in Mainland China, (iii) the enterprise's primary assets, accounting books and records, company seals, board and shareholders' meeting minutes are located or maintained in Mainland China, and (iv) 50 per cent. or more of voting board members or senior executives of the enterprise habitually reside in Mainland China. If all of these criteria are met, the relevant foreign enterprises that are controlled by PRC enterprises will be deemed to have its "de facto management" in Mainland China and therefore be deemed a PRC "resident enterprise".

On 1 September 2011, the State Administration of Taxation issued Administration of Taxation of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprise (for Trial Implementation), as amended in June 2018, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group" which shall be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in China based on the criteria set forth in Circular 82, and if it determines so, it shall report to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine whether the foreign enterprise is a resident enterprise through the authority's investigation.

Since certain of the Guarantor's management is currently based in Mainland China and will remain in Mainland China in the future, it cannot be assured that the Guarantor will not be considered a PRC "resident enterprise" by the PRC tax authorities. If the Guarantor is deemed to be a PRC resident enterprise, it would be subject to corporate income tax at a rate of 25 per cent. on its worldwide income accordingly which may have an adverse effect on the net profit or cash flow of the Guarantor.

Separately, there have been no official implementation rules regarding the determination of the "de facto management bodies" for overseas enterprises that are not directly controlled by PRC enterprises. Therefore, whether an overseas enterprise invested or controlled by another overseas enterprise such as the Issuer will be treated by the relevant tax authorities as a PRC resident enterprise remains unclear.

If the Issuer is deemed a PRC resident enterprise, it would be obligated to withhold PRC income tax of up to 7 per cent. on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10 per cent. on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located outside Hong Kong, unless any lower tax treaty rate is applicable, because the interest and other distributions would be regarded as being derived from sources within Mainland China. Similarly, any gain realised by such non-resident enterprise investors from the transfer of the Notes would be regarded as being derived from sources within Mainland China and, accordingly, would be subject to a 10 per cent. PRC withholding tax.

RISKS RELATING TO THE NOTES UNDER THE PROGRAMME AND THE GUARANTEE

The Issuer is a special purpose company with no business activities or assets of its own and will be dependent on funds from the Group to make payments under the Notes.

The Issuer was established by the Group specifically for the purpose of issuing the Notes and will make the entire proceeds from the issue of the Notes available for the Guarantor and/or other members of the Group. The Issuer does not and will not have any assets other than such receivables in connection with the use of proceeds and its ability to make payments under the Notes will depend on its receipt of timely payments under the arrangements with the Guarantor and/or other members of the Group.

The Guarantor may be unable to make payments on the Guarantee and is subject to structural subordination.

The Guarantor is a holding company with limited operations of its own and its ability to make payments under the Guarantee and to make payments to the Issuer under the loan arrangement to fund payments on the Notes depends upon the receipt of dividends, distributions, interest, loan repayments or advances from its wholly-owned or partly-owned subsidiaries, associates and joint ventures. The ability of the subsidiaries, joint ventures and associates of the Guarantor to pay dividends is subject to their performance and cash flow requirements and may be subject to applicable laws and regulations. The outstanding indebtedness of subsidiaries of the Guarantor may contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Guarantor's percentage interests in its subsidiaries, joint ventures and associates could be reduced in the future.

As the Guarantor is a holding company, payments under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries, joint ventures and associates, except for those liabilities and obligations of the Issuer. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Notes seeking to enforce the Guarantee. The Guarantor's obligations under the Guarantee will not be guaranteed by any of its subsidiaries. The Notes do not contain any restrictions on the ability of the Guarantor's subsidiaries to incur additional unsecured indebtedness.

Any failure to complete the relevant filings under the NDRC Circular within the prescribed time frame following the completion of the issue of the Notes may have adverse consequences for the Issuer and/or the investors of the Notes.

NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with NDRC prior to the issue of the securities and notify the particulars of the relevant issues within ten working days after completion of the issue of the securities. However, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular. In the worst case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer to perform or comply with any of its obligations under the Notes, and the Notes might be subject to enforcement as provided in Condition 12 of the Terms and Conditions of the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

The Guarantor will undertake under the Terms and Conditions of the Notes to perform post-issuance registration and filing as required by laws and regulations as applicable to it from time to time. A failure to complete any applicable registration and filing procedure will not only constitute a breach of the relevant laws and regulations (which may carry administrative penalties), but will also constitute an Event of Default pursuant to which the Notes could be accelerated.

The Notes and the Guarantee are unsecured obligations.

The Notes and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Notes and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Notes.

The ratings of the Notes may be downgraded or withdrawn.

Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer and the Guarantor to perform its obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. Neither the Issuer nor the Guarantor is obliged to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

Any downgrading of the Guarantor's corporate ratings, or those of its subsidiaries, by rating agencies could adversely affect the Group's business and the Group's liquidity.

Any adverse revision to the Guarantor's corporate ratings, or those of its subsidiaries, for domestic and international debt by rating agencies such as Fitch Ratings Ltd., Moody's and S&P may adversely affect the Group's business, its financial performance and the trading price of the Notes. Further, the Group's ability to obtain financing or to access to capital markets may also be limited, thereby lowering its liquidity.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgement, the circumstances so warrant. The Issuer and the Guarantor have no obligation to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may adversely affect the market price of the Notes.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to the Offering Circular or any Pricing Supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments, (2) the Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase of any Note. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Notes are redeemable in the event of certain withholding taxes being applicable.

There can be no assurance as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the date of issue of the first Tranche of Notes for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any Relevant Jurisdiction (as defined in the Terms and Conditions of the Notes). Although, pursuant to the Terms and Conditions of the Notes, the Issuer is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time subject to certain specified exceptions in the event that it has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any Relevant Jurisdiction (as defined in the Terms and Conditions of the Notes) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined in the Terms and Conditions of the Notes), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes.

The Notes do not restrict the Group's ability to incur additional debt or to take other actions that could negatively impact holders of the Notes.

The Issuer and the Guarantor are not restricted under the Terms and Conditions of the Notes from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the covenants applicable to the Notes do not require the Issuer or the Guarantor to achieve or maintain any minimum financial results relating to the Issuer's financial position or results of operations. The Group's ability to recapitalise, incur additional debt and take other actions that are not limited by the Terms and Conditions of the Notes could diminish the Group's ability to make payments on the Notes and amortising bonds when due.

A change in English law which governs the Notes may adversely affect Noteholders.

The Terms and Conditions of the Notes are governed by English law in effect as at the date of issue of the relevant Notes. There can be no assurance as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Issuer may not be able to redeem the Notes upon the due date for redemption thereof.

If specified in the relevant Pricing Supplement, the Issuer may, at its option, and at maturity or at any time or following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) will, be required to redeem all or some of the Notes as the case may be. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Notes could constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's, the Guarantor's or the Group's other indebtedness.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes (in the case of Bearer Notes) or Global Certificates (in the case of Registered Notes). Such Global Notes and Global Certificates will be deposited with a common depositary for Euroclear and Clearstream or lodged with the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders or in the case of the CMU, to the persons for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the Issuer in a relevant CMU Instrument Position Report or any other notification by the CMU.

A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right under the respective Global Notes or Global Certificates to take enforcement action against the Issuer and/or the Guarantor in the event of a default under the relevant Notes but will have to rely upon their rights under the Trust Deed.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

In relation to any issue of Notes which have a denomination consisting of a minimum Specified Denomination (as defined in the "*Terms and Conditions of the Notes*") plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified

Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Gains on the transfer of the Notes and interest payable by the Issuer to overseas Noteholders may be subject to income tax and value-added tax under PRC tax laws.

Under the PRC CIT Law which took effect on 1 January 2008 and recently amended on 29 December 2018, and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed under the CIT Law as non-resident enterprises may be subject to PRC corporate income tax if such gains are regarded as income derived from sources within the PRC. Under the CIT Law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Notes by enterprise holders would be treated as income derived from sources within the PRC and be subject to PRC corporate income tax. In addition, there is uncertainty as to whether gains realised on the transfer of the Notes by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. corporate income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Taxation Arrangement**") which was promulgated on 21 August 2006, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes if such capital gains are not connected with an office or establishment that the Noteholders have in the PRC and all the other relevant conditions are satisfied.

Pursuant to the CIT Law, the PRC Individual Income Tax Law (the "**IIT Law**") which took effect on 30 June 2011 and recently amended on 1 January 2019, and the implementation regulations in relation to both the CIT Law and IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals respectively, subject to adjustment by applicable treaty. As the Issuer is a PRC resident enterprise for tax purposes, interest paid to non-resident Noteholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Noteholders and at a rate of 20 per cent. for non-resident individual Noteholders (or a lower treaty rate, if any).

On 23 March 2016, the Ministry of Finance of the PRC ("**MOF**") and the State Administration of Taxation of the PRC issued the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (Caishui [2016] No. 36) ("**Circular 36**"), which introduced a new value-added tax ("**VAT**") from 1 May 2016. VAT is applicable where entities or individuals provide services within the PRC. If the Issuer is treated as PRC tax resident and if PRC tax authorities take the view that the Noteholders are providing loans within the PRC, or if the Guarantor is treated as PRC tax resident and in the event that the Guarantor is required to fulfil its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Noteholders will be subject to VAT at the rate of six per cent and certain surcharges when receiving the interest payments under the Notes. VAT is unlikely to be applicable to any transfer of Notes between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Notes, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties. Pursuant to the Circular 36, the PRC Interim Regulations on Urban Maintenance and Construction Tax (Notice of the State Council No. 588) (中華人民共和國城市維護建設稅暫行條例(國務院令第588號)), the Interim Provisions on Imposition of Education Surcharge (Notice of the State Council [1990] No. 60) (徵收教育費附加的暫行規定(國務院令[1990]第60號)), the Notice on Unification of the Application of Urban Maintenance and Construction Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals (Guo Fa [2010] No. 35) (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(國發[2010]35號)), the Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises (Cai Shui [2010] No. 103 (關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知(財稅[2010]103號)), the municipal maintenance tax and education surcharge will be applicable when entities and individuals are obliged to pay VAT (for an aggregate of maximum 12 per cent on any VAT payable).If a Noteholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on interest or gains on the transfer of the Notes, the value of the relevant Noteholder's investment in the Notes may be materially and adversely affected.

Foreign Account Tax Compliance withholding may apply to payments on Notes.

Whilst the Notes are in global form and held within Euroclear, Clearstream or the CMU, in all but the most remote circumstances, it is not expected that sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**") will affect the amount of any payment received by Euroclear, Clearstream or the CMU. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has made payment to, or to the order of the common depositary for Euroclear, Clearstream or the CMU and the Issuer has therefore no responsibility for any amount thereafter transmitted through Euroclear, Clearstream or the CMU and custodians or intermediaries.

The insolvency laws of the Cayman Islands and Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar.

As the Issuer is incorporated under the laws of the Cayman Islands and the Guarantor is incorporated under the laws of Hong Kong, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve insolvency laws of the Cayman Islands or Hong Kong, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

The Trustee may request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including without limitation giving of notice to the Issuer and the Guarantor pursuant to Condition 10 of the Terms and Conditions of the Notes and taking enforcement steps, actions, and/or proceedings against the Issuer or the Guarantor pursuant to Condition 12 of the Terms and Conditions of the Notes, the Trustee may, at its sole discretion, request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of the Noteholders. The Trustee shall not be obliged to take any such actions if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions of the Notes and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws or regulations, it will be for the holders of the Notes to take such actions directly.

Modifications and waivers may be made in respect of the Terms and Conditions of the Notes and/or the Trust Deed by the Trustee or less than all of the holders of the Notes, and decisions may be made on behalf of all holders of the Notes that may be adverse to the interests of the individual holders of the Notes.

The Terms and Conditions of the Notes contain provisions for calling meetings of the holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including those Noteholders who did not attend and vote at the relevant meeting and those Noteholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of individual holders of the Notes.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the holders of the Notes, agree to any modification of the Trust Deed, the Terms and Conditions of the Notes and/or the Agency Agreement (as defined in "*Terms and Conditions of the Notes*") (other than in respect of a reserved matter) which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Notes and to any modification of the Notes, the Trust Deed or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

In addition, the Trustee may, without the consent of the holders of the Notes, authorise or waive any proposed breach or breach of the Notes, the Trust Deed or the Agency Agreement (other than a proposed breach, or a breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the holders of the Notes will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on all Noteholders.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES UNDER THE PROGRAMME

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

The market price of Notes carrying optional redemption features may be more limited than that of Notes without these features.

Notes issued under the Programme may sometimes have Issuer optional redemption features. In a decreasing interest rate environment, the Issuer may exercise its right to redeem such Notes earlier than the final maturity date at the stated optional redemption price and an investor may face reinvestment risk as well as see the market price of the Notes converge to its redemption price as it gets closer to the optional redemption date.

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of Partly Paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include such features.

Inverse Floating Rate Notes are typically more volatile than conventional floating rate debt.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London Interbank Offered Rate. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed Rate Notes and Floating Rate Notes (as defined in the "*Terms and Conditions of the Notes*") may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

The value of, and return on, Floating Rate Notes linked to or referencing LIBOR may be adversely affected in the event of a permanent discontinuation of LIBOR.

On 27 July 2017, the United Kingdom Financial Conduct Authority, which regulates the LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Terms and Conditions of the Notes (as further described in Condition 5(b) of the Terms and Conditions of the Notes), or result in adverse consequences to holders of any securities linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities based on the same benchmark. In certain circumstances the ultimate fallback of interest for a particular Interest Period (as defined in "*Terms and Conditions of the Notes*") may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page (as defined in "*Terms and Conditions of the Notes*").

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Notes.

RISKS RELATING TO THE MARKET GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer, the Guarantor and the Group. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange, there can be no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there can be no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

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

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There can be no assurance that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

Exchange rate risks and exchange controls may result in a Noteholder receiving less interest or principal than expected.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a Noteholder may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

Notes denominated in Renminbi ("**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. Participating banks in Hong Kong, Macao, Singapore, Taiwan, Seoul, Frankfurt, London, Paris, Luxembourg, Doha and Toronto have been permitted to engage in the settlement of current account trade transactions in Renminbi under certain pilot schemes.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

Although starting from 1 October 2016, Renminbi will be added to the Special Drawing Rights basket created by the International Monetary Fund, there can be no assurance that the PRC government will continue to liberalise control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer and the Guarantor to source Renminbi to finance their obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the ability of the Issuer and the Guarantor to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While PBOC has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There can be no assurance that new PRC regulations will not be promulgated or the Settlement Agreements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there can be no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates and is affected by changes in the PRC, by international political and economic conditions and by many other factors. All payments of interest and principal will be made with respect to Renminbi Notes in Renminbi. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the Renminbi Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of Renminbi against such currency could cause a decrease in the effective yield of the Renminbi Notes below their stated coupon rates and could result in a loss when the return on the Renminbi Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in Renminbi Notes.

Investment in Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely (i) when Renminbi Notes are represented by Global Notes or Global Certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

Remittance of proceeds into or outside of the PRC in Renminbi.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There can be no assurance that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds outside the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be applied to finance new and existing projects, to repay and/or refinance the existing indebtedness of the Group and for general corporate purposes or other purposes as stated in the applicable Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

The following table sets out, on a consolidated basis, the capitalisation of the Guarantor as at 31 December 2018, on an actual basis:

	As at 31 December 2018 Actual	
	(HK$ millions)	(US$ millions)
Short-term borrowings		
Bank and other borrowings — due within one year	14,627	1,868
Notes payable — due within on year	16,277	2,079
Total short-term borrowings	30,904	3,947
Long-term borrowings		
Bank and other borrowings — due after one year	100,504	12,835
Notes payable — due after one year	64,540	8,242
Total long-term borrowings	165,044	21,077
Owners' equity(1)		
Issued and paid up share capital	90,420	11,547
Share premium and reserves(2)	193,061	24,655
Equity attributable to owners of the Guarantor	283,481	36,202
Total capitalisation(3)	448,525	57,279

Notes:

(1) Excluding non-controlling interests.

(2) The reserves as at 31 December 2018 included retained profits, share premium and all other reserves.

(3) Total capitalisation represents the total of long-term borrowings and equity attributable to owners of the Guarantor.

There has been no material change in the total capitalisation, on a consolidated basis, of the Guarantor since 31 December 2018 and up to the date of this Offering Circular.

THE ISSUER

The Issuer was incorporated as an exempted company with limited liability under the Companies Law, as amended of the Cayman Islands on 31 May 2019 with company number 352041. The registered office of the Issuer is at the office of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.

The share capital of the Issuer is U.S.$50,000, divided into 50,000 ordinary shares of par value U.S.$1.00 each. One ordinary share has been issued and paid up. The Issuer has no subsidiary. The one issued share in the Issuer is owned by the Guarantor.

The Issuer was established for the purpose of establishing the Programme, issuing the Notes thereunder and arranging the proceeds. Since its incorporation, the Issuer has not engaged in any other material activities other than those relating to the proposed establishment of the Programme, issue of the Notes thereunder and arrangement of the proceeds thereof, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party. The Issuer will be managed in accordance with its memorandum and articles of association and the laws of the Cayman Islands.

The directors of the Issuer as at the date of this Offering Circular are Mr. Yan Jianguo, Mr. Luo Liang and Mr. Guo Guanghui, each of whom is also a director of the Guarantor. The business address of the directors is 10/F., Three Pacific Place, 1 Queen's Road East, Hong Kong. The Issuer has no employee.

The directors of the Issuer do not have any interest or short position in the shares, underlying shares or debentures of the Issuer or of any of its subsidiaries.

Under Cayman Islands law, the Issuer is not required to carry out annual audits, appoint auditors or publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper books of account as it is necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

As at the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Issuer and their private interests and/or other duties.

THE GUARANTOR

The Guarantor is an investment holding company with operations in Mainland China, Hong Kong, Macau and London. The Guarantor was incorporated in Hong Kong on 1 June 1979 as a limited liability company with registration number 0070153, and its shares have been listed on the Hong Kong Stock Exchange (stock code: 00688) since 1992. The registered office of the Guarantor is at 10/F., Three Pacific Place, 1 Queen's Road East, Hong Kong.

The Guarantor is managed in accordance with its articles of association and with the provisions of the laws of Hong Kong.

The business address of the directors of the Guarantor is at 10/F., Three Pacific Place, 1 Queen's Road East, Hong Kong.

As at the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Guarantor and their private interests and/or other duties.

THE GROUP

OVERVIEW

The Group is a major property developer in the PRC. Its main sources of revenue are the development and sale of residential and commercial properties in Mainland China, Hong Kong and Macau. The Group has made significant investments and has interests in property development projects in major cities in Mainland China such as Beijing, Guangzhou, Shanghai and Shenzhen, in which the property market has experienced significant growth in recent years. The Group also has a strong presence in other major cities in Mainland China including Chengdu, Chongqing, Xiamen, Hangzhou, Nanjing, Wuhan, Zhengzhou, Suzhou, Tianjin and Xi'an. The property development portfolio of the Group in Mainland China includes property developments in the Hua Nan Region, the Hua Dong Region, the Hua Bei Region, the Western Region and the Northern Region, covering a diverse area across Mainland China. In addition, the Group has made sizable investments in property development projects in Hong Kong and Macau. As at 31 December 2018, the Group and its joint ventures and associates (excluding COGO) had a land bank of approximately 70.10 million square metres (with an attributable land bank of approximately 56.97 million square metres), while COGO, a 38.32 per cent.-owned associate of the Guarantor, had a land bank of approximately 21.34 million square metres (with an attributable land bank of approximately 19.98 million square metres), together across 64 cities in the PRC as well as in Hong Kong and Macau.

In addition to property development, the Group is also involved in property investment in Mainland China, Hong Kong, Macau and London. The Group seeks commercial development properties for long-term appreciation and lease potential and derives rental and management fees from its property investment portfolio in Mainland China, Hong Kong, Macau and London.

The Group also runs a number of complementary operations, including hotel operation and construction and building design consultancy services.

For the year ended 31 December 2018, the Guarantor's consolidated revenue and net profit was approximately HK$171,461.1 million (approximately US$21,896.6 million) and approximately HK$46,702.0 million (approximately US$5,964.1 million), respectively. As at 2 July 2019, the Guarantor had a market capitalisation of approximately HK$318.3 billion, which made it one of the largest PRC-focused property developers listed on the Hong Kong Stock Exchange in terms of market capitalisation as at such date. The Guarantor is also a member of the Hang Seng Index, the Hang Seng Corporate Sustainability Index and FTSE China 50 Index.

The Guarantor is rated "Baa1/Stable" by Moody's, "BBB+/Stable" by Standard & Poor's and "A–/Stable" by Fitch.

The Group is comprised of the Guarantor and over 400 subsidiaries. The Issuer is a direct wholly owned subsidiary of the Guarantor.

COMPETITIVE STRENGTHS

The Group is a major PRC property developer supported by the well-known national brand of "China Overseas Property" ("中海地產") in the mid- to high-end sector

The Group's management believes that its presence in five regions in the PRC, its diversified portfolio of properties and the quality of its property developments have enabled it to become a major national player with a nationally recognised brand name of "China Overseas Property" ("中海地產") in the fragmented PRC property market. The Group is able to maintain a national focus on the PRC property market by utilising its brand name to enhance its presence in cities in which it has an existing presence while opportunistically expanding into new cities. The Group plans its property developments to cater for the needs and expectations of its potential buyers and endeavours to provide affordable and quality products for customers with different levels of purchasing power in the mid- to high-end property market. The Group also devotes significant resources to after-sales services and employs its customer relationship management system to foster long-term customer relationships. The Group's management believes that its brand name enables it to sell certain of its properties at a premium.

Adhering to the concept of development of "Each and Every Detail of Each and Every Project" ("過程精品 樓樓精品"), the Group received a number of awards in 2018 from international professional institutions for its projects. The Group's "The Paragon" in Shenzhen was awarded "Outstanding Residential Community Gold Award" in the 2018 Tien-yow Jeme Civil Engineering Prize, and its "One Blossom Cove" in Guangzhou was awarded the "Best Mixed-use Property Award" in the International Property Awards.

China Overseas Property was acknowledged as among the "Leading Brands of China Real Estate Companies" for the 15th consecutive year, ranked in the property sector with a brand value of approximately RMB72.3 billion as "2018 No. 1 in China Real Estate Industry — Leading Company Brand & Brand Value". Leveraging its excellent performance, the Guarantor has been voted as the number one "China Blue Chip Real Estate Developer" for 15 years in a row. In recognition of its comprehensive strength, the Guarantor was awarded "Hong Kong Outstanding Enterprise 2018 — Blue Chip Category", and the Guarantor also won "China's Real Estate Industry Best Employer Award 2018". In addition, the Guarantor was awarded the "China Property Award of Supreme Excellence" by the Hong Kong Institute of Financial Analysts and Professional Commentators Limited, and it received the "Asian Excellence Award (Best CEO — Investor Relations)" and "Asian Excellence Award (Best Investor Relations)" from the Corporate Governance Asia again in 2018. Also, the Guarantor was awarded the "Platinum Award" — the highest level of recognition from The Asset, one of Asia's most influential financial magazines, on its outstanding achievement in environmental, social and corporate governance.

The Group is well-positioned to capitalise on the growing trend of "green initiative"

With the rapid urbanisation and increasing commitments to conserve resources and reduce greenhouse gas emissions, "greening" and other environmentally friendly construction methods have become a point of attention in the PRC property market. In this aspect, the PRC government has introduced a number of sustainable construction policies as well as new standards and recognitions for environmentally sustainable construction methods, such as The Green Building Evaluation Label (GBEL) rating system administered by the Ministry of Housing and Urban-Rural Development. The US Leadership in Energy and Environmental Design (LEED) certification and the United Kingdom's building assessment BREEAM certification have also become prevalent certifications within the PRC property market. These standards and recognitions have encouraged the design and adoption of energy efficient buildings in China. The Group is well-equipped to capitalise on the "green initiative" through its research and development efforts. Specifically, the Group utilises an array of sustainable construction methods, such as the application of rainwater recycling systems, light energy saving systems, thermal insulation systems through the installation of exterior wall and roof insulation materials, natural ventilation systems and other greening technology on the development of its projects.

The Group has received numerous awards for its commitments to "green initiative". During 2018, the Group had secured green building certification for 44 new projects, with a total GFA of approximately 8.79 million square metres. As at 31 December 2018, the Group had obtained 154 green building certifications in total, covering a building area of approximately 28.40 million square metres. The Group is in the progress of applying for green construction certificates for 93 of its projects, covering a total GFA of approximately 20.17 million square metres. Furthermore, in July 2015, the Group has set up a Green Energy Research Centre led by an experienced and dedicated research and development division, which primarily engages in the research of drainage systems, heating, ventilation and air conditioning (HVAC), as well as other green technologies. The Group has again been elected, for eight years in a row, a constituent in Hang Seng Corporate Sustainability Index. In recognition of the Group's outstanding green development practices, the Group was awarded first place in "China's Listed Real Estate Enterprise Green Credit Ranking Top 50" in 2018. The Group believes that its adoption of "green building" and its research and development capabilities set it apart from other property developers within the industry and provide the Group with a competitive edge.

As a major state-owned developer, the Group benefits from strong support from its controlling shareholder which has fostered its long-term sustainable development

The Guarantor is an indirect subsidiary of CSCEC, which is a state-owned construction group that is the parent company of one of the largest state-owned construction enterprises in the PRC and one of the world's largest construction contractors and a "core enterprise" under the direct administration of the PRC government. CSCEC is currently one of the state-owned enterprises designated by SASAC to participate in property development as its main business. As at 31 December 2018, CSCEC owned 56.28 per cent. of the outstanding shares of CSCECL, which has been listed on the Shanghai Stock Exchange since 2009 and wholly owns COHL, the Guarantor's immediate holding company. The Guarantor has employment or secondment arrangements and exchange programmes with CSCECL. The Group has received direct support from its controlling shareholder in the form of co-investment in certain joint ventures as well as through share subscriptions, and the Group's management expects to continue to benefit from this relationship in the future.

The Group has a proven track record and in-depth local knowledge

The Guarantor is a major property developer with a proven track record of project development in Mainland China. It has been engaged in property development in the PRC for over 20 years and has over 26 years of experience as a listed company in Hong Kong. The Group, together with its joint ventures and associates, has created a property development portfolio comprising development projects in 64 PRC cities as well as in Hong Kong and Macau as at 31 December 2018.

On 11 October 2018, the Group successfully acquired four land parcels of the "Hongqi Village" project in Shanghai Putuo District, with a total GFA of approximately 354,000 square metres and at the reserve price of RMB9.4 billion (of which 70 per cent. is attributable to the Group). The project is the largest urban village redevelopment in the downtown area of Shanghai. The project is located in the Putuo Zhenru district, one of the four sub-centres of Shanghai located in the central core area. As part of the mainstream lot in the downtown area with complete ancillary facilities, the district has ample room and potential of development. It is planned to be Shanghai's new landmark with residential, office and shopping malls. The project marks another important milestone in the Group's 26 years history in Shanghai.

In December 2018, the Group secured the tender for a luxury residential plot in Kai Tak in Hong Kong at the price of HK$8.0 billion. The site covers an area of approximately 9,000 square metres with a total GFA of approximately 55,000 square metres. This former runway area at Kai Tak Area 4B Site 2, New Kowloon Inland Lot No. 6575 enjoys convenient transportation at an excellent location. It is planned to be used for a luxury residential project.

The senior management team of the Group has extensive experience in the property development and property investment industries in the PRC and Hong Kong. Most members of the senior management team of the Group have worked together for more than 10 years. All of the senior management members hold a bachelor's degree or above, among which more than 70 per cent. hold a master's degree or higher. The Group's senior management team has in average over 25 years of experience in the industry. See "*Directors and Management*" for more information about members of the senior management team. The Group possesses in-depth local expertise, market knowledge and experience which its management believes give the Group a competitive advantage over other competitors seeking to expand in or into the PRC property development market.

The Group owns a sizable, diversified and high quality land bank

The Group's management believes that a sizable and high quality land bank is one of the most important resources for a property developer. The Group's management believes that one of the key factors of the Group's growth has been its ability to acquire sites at competitive prices and at opportune times, thereby securing attractive returns on the properties it develops and sells. Through a series of selective land acquisitions over the years, the Group has secured a sizable and quality land bank in prime locations at competitive prices. In 2015, the Group completed the acquisition of a property portfolio in 11 major cities in the PRC and in London with a total GFA of approximately 11 million square metres from CSCECL. In 2016, the Group completed another acquisition of a property portfolio across 25 major economic regions in the PRC with a total GFA of approximately 32 million square metres from CITIC Corporation Limited and CITIC Pacific Limited. As at 31 December 2018, the Group and its joint ventures and associates (excluding COGO) had a land bank of approximately 70.10 million square metres (with an attributable land bank of approximately 56.97 million square metres), while COGO had a land bank of 21.34 million square metres (with an attributable land bank of approximately 19.98 million square metres), and such land banks are well diversified across a total of 64 PRC cities as well as in Hong Kong and Macau. The Group's management believes that the Group has sufficient land bank which lays a solid foundation for sustainable development over the next several years.

The Group's operations are scalable for further expansion

With a substantial number of properties under development, the Group enjoys the benefits of economies of scale of its design and construction process, customer service and sourcing of raw materials and services. The Group's management believes that economies of scale have provided the Group with an advantage in securing the services of reputable contractors of significant scale, negotiating prices with suppliers and contractors and securing finance for its operations at competitive rates, enabling it to recruit qualified staff. In addition, the Group's management believes that it is better positioned than local developers of a smaller scale to sustain the impact of the administrative and credit-tightening measures introduced in recent years by the PRC government to control the growth of the PRC property market. Furthermore, the Group's management believes that the PRC government's introduction of administrative and credit control measures may present the Group with opportunities to acquire quality projects under development or land from smaller scale property developers or from state-owned enterprises which exit the PRC property market.

The Group is financially strong and has flexible sources of funding

The Guarantor has been listed on the Hong Kong Stock Exchange since 1992, and it conducts most of its property development business in the PRC through subsidiaries established in the PRC that are project companies. The Group has access to both international and domestic equity and debt financing and the ability to tap both sources of funding depending on market conditions, thereby securing the most favourable financing terms and maximising its funding efficiency. The Group's management believes that the Group's ability to obtain international financing gives it a competitive advantage over other local competitors in the PRC who may only have access to domestic funding, the availability and costs of which may be affected by any credit control measures introduced by the PRC government. As such, the Group's management believes that its liquidity position is robust, supported by access to diversified funding sources.

Since the global financial crisis, the Group has taken steps to improve its financial stability and its fund management capabilities. The Group's management believes that it is in a strong financial position to continue to develop and grow. The Guarantor is rated "Baa1/Stable" by Moody's, "BBB+/Stable" by Standard & Poor's and "A–/Stable" by Fitch. The Group has used its market judgement and applied creative marketing methods to continue to improve its financial position and maintain its corporate and bond ratings. Moreover, the Group has a strong cash position, with approximately HK$100.6 billion (approximately US$12.8 billion) in bank balances and cash as at 31 December 2018.

STRATEGIES

The Group's key business objective is to seek sustainable growth in revenue and profit by pursuing the following strategies:

Continuing to focus on property development business especially in the PRC

The Group will continue to focus on the property development business in Mainland China as well as in Hong Kong and Macau in the medium and long term. The Group is a leading player in the PRC on a national scale. Substantially all of the financial resources of the Group are invested in the property business, and over 90 per cent. of its revenue and profit are derived from its PRC operations. The Group will continue to focus on its core business of property development especially in the PRC in the future. The Group will also continue its presence in Hong Kong and Macau, in which the Group strives to enlarge the scale of its land reserves and its development activity. Furthermore, the Group will continue to focus on improving the quality of development projects, directing resources to residential developments, speeding up turnover and expediting the development of scale, while achieving faster growth and an equilibrium between sale and profit. The Group will also seize opportunities for profound reform of China's property industry by increasing investment in resources and improving the operational quality of commercial properties, such as office buildings, hotels, shopping centres and long-term leased apartments.

Continuing to strengthen the "China Overseas Property" ("中海地產") brand nationwide

"China Overseas Property" ("中海地產") is a leading nationwide brand in the PRC property sector. The Group intends to strengthen and promote the "China Overseas Property" ("中海地產") brand further through maintaining the high quality standards of its products, its operational expertise and its diversified land bank portfolio. Capitalising on its design and construction experience and in-depth local knowledge in a broad range of cities and regions across the PRC, the Group designs its property projects to cater to the distinctive features of the culture, economy and environment of the city in which the project is located and the different needs, expectations and purchasing power of its potential purchasers. The Group seeks to maintain high standards in the properties that it develops in terms of design skill, quality of materials and furnishings in order to bolster its reputation as a developer of premium properties. The Group intends to continue to devote its resources to improving project site selection, market orientation, project design, quality control, marketing and after-sales services.

As part of its sales and marketing strategies, the Group also aims to achieve faster growth in sales scale. To this end, the Group aims to achieve faster project development and delivery, optimise sales incentives and continue to enhance customer satisfaction. In addition, the Group will continue to closely monitor the property market, maintain multiple sales and marketing channels and accelerate sales turnover and cash collection to balance price and volume.

Focusing on the mid- to high-end property sector and enhancing its market share in the PRC residential property sector, particularly in tier-one and tier-two cities

The Group will continue to target its products at the mid- to high-end market in tier-one and tier-two cities, which the Group believes will continue to generate strong demand in the long term, assuming ongoing economic growth in the PRC. The Group will continue to seek to enhance its market presence and profitability through prudent expansion. In particular, the Group seeks to enhance its market share and focus on the high-end segment in the tier-one cities of Beijing, Guangzhou, Shanghai and Shenzhen, where it already has a strong presence. The Group also plans to accelerate the scale and pace of its property development and grow its market share in tier- two cities in which it also has a presence, such as Chengdu, Chongqing, Xiamen, Hangzhou, Nanjing, Wuhan, Zhengzhou, Suzhou, Tianjin and Xi'an. Moreover, it plans to expand opportunistically to new cities where its property development criteria are satisfied, in particular the ability to acquire suitable land at reasonable prices.

The Group will also continue to review appropriate opportunities to partner with large and reputable developers and participate in large-scale property development consortiums in a selective manner to minimise risks and accelerate its business development.

Developing COGO to serve as an effective complement in tier-three cities

While the Group's focus is on tier-one and tier-two cities in the PRC as well as Hong Kong and Macau, it will continuously seek to complement its business operations by investing in tier-three cities either directly or through COGO. Some of the stringent policies and regulations with respect to the property industry implemented by the PRC government apply to tier-one and tier-two cities in the PRC, but they do not apply to tier-three cities in the PRC. The Group expects that COGO's existing business operations in emerging tier-three cities, such as Hohhot, Yinchuan, Lanzhou, Ganzhou, Shantou and Hefei, will continue to develop at a fast pace, thereby serving as an effective complement to the Group's business operations in the PRC. The Group may also potentially invest in small cities which are located near its projects in tier-one and tier-two cities.

Expanding its land bank at a reasonable price

Quality and the cost of replenishing the land bank are critical factors in determining profitability of property projects. The Group's management believes that it can build on its position as a major property developer in Mainland China and increase its market share by leveraging on its competitive strengths and ensuring its land investments are fiscally sound. The Group will continue to adopt a disciplined investment approach in acquiring quality land at a reasonable price, whether organically or through acquisition opportunities (as in the case of COGO).

In 2018, the Group acquired 63 parcels of land in 28 PRC cities and Hong Kong, adding a total GFA of approximately 17.64 million square metres (with an attributable interest of approximately 12.72 million square metres) at a total land premium of HK$144.3 billion (with an attributable interest of HK$108.4 billion). Among the new land parcels, 13 were acquired at reserve price, accounting for 21 per cent. of the annual total attributable land premium. During the same year, COGO acquired 25 parcels of land in 14 PRC cities and increased its land bank by approximately 5.02 million square metres (with an attributable interest of approximately 4.74 million square metres). It is the first time for COGO to expand its presence in Liuzhou, Baotou and Jining. The Group intends to maintain a quality and sizable land bank in the PRC and will continue to review appropriate opportunities to replenish its land bank by investing in new development sites at a reasonable price as and when such sites become available. The Group plans to increase its land bank substantially over the next several years, while also achieving a balanced distribution of investment across the regions in which it operates. To this end, in the open land market, the Group has always adhered to its strategy to invest in "major cities, mainstream areas and mainstream products". In terms of location, the Group prefers to expand activity in its already developed cities. Its investment focus mostly targets prime areas in first-tier and second-tier cities with an insistence on selecting best-of-the-best projects. In the non-open land market, the Group will further increase land investment such as shantytown redevelopment in tier-one and tier-two cities and urban area renovation, thereby increasing its land reserves in a diversified manner.

Increasing its property investment portfolio and diversifying its income sources

Although the Group's management believes that the sale of property will continue to account for the largest proportion of its revenue, the Group will continually seek to gradually expand its property investment portfolio, particularly in the commercial segment, which the Group's management believes will provide recurring income. To this end, the Group will focus on Grade A office buildings under China Overseas Series, shopping malls under "UNI Shopping Mall" and star-rated hotels to enhance operational and economic benefits. See "*The Group — Property Investment*" for further details. As at 31 December 2018, the Group and its joint ventures and associates held completed commercial properties comprising a total of 42 office buildings, 13 shopping malls and 12 star-rated hotels, with a total GFA of approximately 4.09 million square metres. As at the same date, the Group and its joint ventures and associates held commercial properties with a total GFA of approximately 5.47 million square metres which are under development or to be developed.

In addition, the Group will further accelerate its development of properties in the education, senior living and logistics sectors, which the Group believes will effectively complement its primary business operations and diversify its income sources. To this end, the Group aims to continue to develop new businesses including schools, kindergartens, extracurricular schools, outdoor camps, senior apartments and logistic industrial parks.

Expanding its development through selective land acquisitions and mergers and acquisitions

The Group will continue and strive to replenish its prime land reserve by executing its prudent land policies. In recent years, the Group has leveraged on its strong financial position to selectively acquire land parcels, as well as acquiring quality properties from its joint ventures in which it has previously invested in order to strengthen its land reserve for future growth. The Group will maintain an appropriate scale of investment and seize opportunities from market adjustments as they arise in the PRC property market. The Group will also consider merger and acquisition opportunities to supplement its organic growth as and when such opportunities arise, such as the acquisition of the property portfolio from CSCECL in 2015 and from CITIC Limited in 2016, both of which substantially increased the land bank of the Group. The Group's management expects that there will continue to be merger and acquisition opportunities arising when the property market adjusts in the PRC as a result of the prevailing unfavourable global political and economic environment, which the Group would approach in an opportunistic manner.

The Group will also continue to increase its investment in the Hong Kong and Macau property markets. Specifically, the Group will actively participate in bidding for government land, urban renewal projects and cooperative development projects. The Group believes that this will allow it to increase its land reverses and enhance its growth in Hong Kong and Macau.

Maintaining prudent financial management and internal control system

The Group intends to continue to improve its fund management capabilities through sound financial management, taking advantage of its investment grade rating and its international and domestic funding platforms and channels. The Group will target a low gearing ratio relative to its peers, prudent levels of indebtedness and a strong liquidity position. The Group intends to make full use of its fund-raising capabilities to enhance its financial strength through capital and credit markets by tapping new channels and platforms as appropriate, subject to market conditions, including from time to time issuances of US dollar debt securities and hybrid securities. The Group will also continue to improve its internal financial management processes and corporate governance standards. It strictly adheres to the principle of prudent financial management and in particular focuses on ensuring spending is in line with cash inflows. Moreover, the Group's management believes that it generally maintains a conservative level of debt, with sufficient cash flows for debt service. Prudent financial management and a strong finance function allows the Group to avoid the need to sell properties at low prices in a market downturn and positions the Group to seize business opportunities and to acquire prime land at reasonable cost. In summary, the Group seeks to strengthen its financial and cash flow management to support sustainable business growth.

Furthermore, the Group intends to continue to improve its operational efficiency and maintain its cost-competitiveness. To this end, the Group will further enhance the professional capability of its project management teams, optimise project management and decision-making efficiency, implement holistic planning and supply, sales and stock information management system. Specifically, the Group will further improve employee care and provide a variety of training and continuing education opportunities to its employees. The Group will also continue to improve its remuneration and compensation system in order to maintain its sound relationship with the employees. The Group also has a share options incentive scheme in place to directly reward over 400 middle and senior management members of the Guarantor, as well as managers, technical experts and related professionals who directly contribute to the Guarantor's business development.

In addition, the Group will continue to strengthen its cost control advantage by improving the construction and design standards and expanding the base and scale of materials purchased. The Group will also continue to manage expenditure on marketing, management and financial operations to better control its operating costs. Moreover, the Group will continue to optimise its comprehensive digital information management system in response to the latest technology trends. The comprehensive digital information management system will allow the Group to effectively optimise its progress management, cost and quality control management, design and planning management, as well as marketing and inventory management, which will enable the Group to further enhance its management efficiency and capabilities.

BUSINESS

The Group's primary business activities and interests are in three principal sectors: (1) property development, (2) property investment, and (3) other operations. In relation to property development, the Group is a major property developer in the PRC and operates in Mainland China, Hong Kong and Macau. The Group intends to continue to increase stable, long-term income and to grow its property investment business, which is comprised primarily of property letting, to further diversify its revenue sources. The Group is also engaged in other operations such as hotel operation and construction and building design consultancy services.

The following table shows a breakdown of the Group's revenue by business segment for the years indicated:

	For the years ended 31 December			
	2016	**2017**	**2018**	**2018**
	(HK$ millions)	**(HK$ millions)**	**(HK$ millions)**	**(US$ millions)**
Revenue				
Property development[1]	159,891.1	162,139.8	167,036.6	21,331.5
Property investment	2,137.2	2,450.1	3,533.5	451.3
Others[2]	2,040.2	1,455.1	891.0	113.8
Total revenue	**164,068.5**	**166,045.0**	**171,461.1**	**21,896.6**

Notes:

(1) The Group recognises revenue in the ordinary course of business when revenue recognition criteria are satisfied. See "*The Group — Property Development — Overview of Projects*".

(2) "Others" includes hotel operation, real estate management services and construction and building design consultancy services. The Group disposed of its real estate management services business in 2017 and has not engaged in such business since 2018. As a result, the revenue of the Group's other businesses no longer includes revenue from the real estate management services from 2018.

The following table shows the Group's segment profit (including shares of profits of associates and joint ventures) for the years indicated:

	For the years ended 31 December			
	2016	**2017**	**2018**	**2018**
	(HK$ millions)	**(HK$ millions)**	**(HK$ millions)**	**(US$ millions)**
Segment profit				
Property development	46,944.8	51,445.7	62,518.9	7,984.0
Property investment	11,881.9	10,000.6	12,460.8	1,591.3
Others[1]	31.1	273.1	95.0	12.1
Total	**58,857.8**	**61,719.4**	**75,074.7**	**9,587.4**

Note:

(1) "Others" includes hotel operation, real estate management services and construction and building design consultancy services. The Group disposed of its real estate management services business in 2017 and has not engaged in such business since 2018. As a result, the revenue of the Group's other businesses no longer includes revenue from the real estate management services from 2018.

PROPERTY DEVELOPMENT

Overview of Projects

Most of the Group's property developments are comprised of high quality residential properties targeting the middle-to high-end retail market in the PRC. The Group uses the brand name "China Overseas Property" ("中海地產") in the PRC. The Group offers a broad variety of products, including townhouses, low-rise apartments, high-rise apartments, villas, deluxe houses, international community developments and high-end houses.

For the year ended 31 December 2018, the Group, together with its joint ventures and associates (excluding COGO), completed 71 projects with a total GFA of approximately 13.64 million square metres. With respect to the property information contained in this Offering Circular, the site area information for an entire project is based on the relevant land use rights certificates. The aggregate GFA of an entire project is calculated by multiplying its site area by:

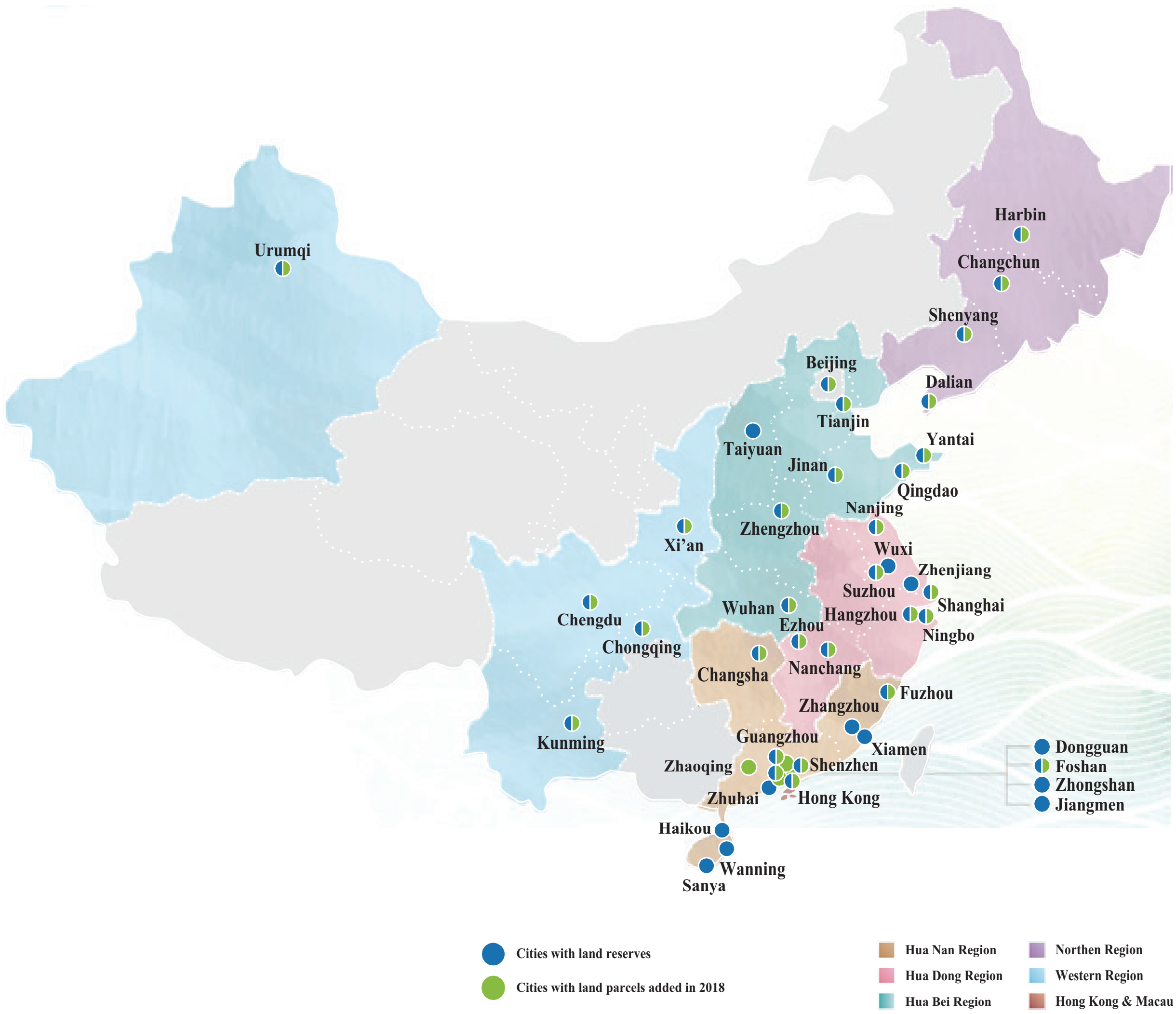
- the plot ratio specified in other approval documents from the local governments relating to the project;
- the maximum permissible plot ratio as specified in the relevant land grant contracts; or
- such lower plot ratio as the Group reasonably expects to be able to develop for such project.

The aggregate GFA of a project includes both saleable and non-saleable GFA. Non-saleable GFA refers to certain communal facilities, including transformer rooms, club houses and guard houses.

The Group generally treats a property unit as "sold" when an agreement is executed with a customer. A property unit is classified as "pre-sold" when the property unit has been sold but the sale amount related thereto has not yet been recognised as revenue. Until 31 December 2017, the Group recognises the sales of properties in the ordinary course of business as revenue when all of the following criteria are satisfied: (1) the significant risks and rewards of ownership of the properties are transferred to the buyers; (2) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained; (3) the amount of revenue can be measured reliably; (4) it is probable that the economic benefits associated with the transaction will flow to the Group; and (5) the cost incurred or to be incurred in respect of the transaction can be measured reliably. Since 1 January 2018, the Group determines whether the properties have alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date.

- For properties which have no alternative use to the Group and the Group has no enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied at a point in time when the customer obtains control of the property and the Group satisfies the performance obligations.
- For properties which have no alternative use to the Group and the Group has enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied over time in accordance with the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

The following map indicates the approximate locations of the Group's property projects in Mainland China, Hong Kong and Macau as at 31 December 2018:



Set forth below is a summary of certain of the Group's major properties completed and held for sale, and major properties under development as at 31 December 2018. In general, this summary covers properties in which the Group had made substantial investment as at 31 December 2018. In all cases, the Group's interest reflects an interest in the division of the property following completion of a development project.

Major Properties Completed and Held for Sale

Name of property and location	Use	GFA	The Group's interest
		('000 square metres)	(per cent.)
Cloud Hills *Fenggang Town, Dongguan*	Residential/Commercial	222	100
Glory Mansion *Shunde District, Foshan*	Residential/Commercial	270	100
The Metro Mansion *Shunde District, Foshan*	Residential/Commercial	223	100
Unione *Jianxing West Road, Ningbo*	Residential	176	100
Rose Garden *Economic and Technological Development Area, Nanchang*	Residential/Commercial	386	100

Major Properties under Development

Set forth below are details of the Group's major properties under development. A number of these projects are still in early stages of development, but are expected by management to be material to the Group.

(1) *Coli City*

Coli City is a residential project located in Yuhong District, Shenyang. The project occupies a total site area of 1,254 thousand square metres with a total GFA of 3,281 thousand square metres. The land was purchased by the Group for approximately RMB3.5 billion. The project is targeted to be completed in 2020.

(2) *Gate of Peace*

Gate of Peace is a residential and commercial project located in Heping District, Shenyang. The project occupies a total site area of 495 thousand square metres with a total GFA of 2,255 thousand square metres. The land was purchased by the Group in 2013 for approximately RMB4.7 billion. The project is targeted to be completed during the period from 2019 to 2021.

(3) *International Community*

International Community is a residential and commercial project located in Gaoxin District, Yantai. The project occupies a total site area of 452 thousand square metres with a total GFA of 1,376 thousand square metres. The land was purchased by the Group in 2013 for approximately RMB1.8 billion. The project is targeted to be completed in 2020.

(4) *Glorious City*

Glorious City is a residential project located in Fushan District, Yantai. The project occupies a total site area of 120 thousand square metres with a total GFA of 393 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB477.2 million. The project is targeted to be completed in 2020.

(5) *Flourishing City*

Flourishing City is a residential and commercial project located in the Economic and Technological Development Area in Changhcun. The project occupies a total site area of 414 thousand square metres with a total GFA of 1,118 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB3.8 billion. The project is targeted to be completed during the period from 2019 to 2023.

(6) *Master Mansion*

Master Mansion is a residential and commercial project located in the Economic and Technological Development Area in Changhcun. The project occupies a total site area of 172 thousand square metres with a total GFA of 1,086 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB3.6 billion. The project is targeted to be completed in 2022.

(7) *Glory Mansion*

Glory Mansion is a residential and commercial project located in Ganjingzi District, Dalian. The project occupies a total site area of 153 thousand square metres with a total GFA of 532 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB2.8 billion. The project is targeted to be completed in 2020.

(8) *La Cite (Wuxi)*

La Cite is a residential and commercial project located in Xinwu District, Wuxi. The project occupies a total site area of 245 thousand square metres with a total GFA of 845 thousand square metres. The land was purchased by the Group in 2016 for approximately RMB5.0 billion. The project is targeted to be completed in 2021.

(9) *Jiangbei New District Project*

Jiangbei New District Project is a residential and commercial project located in Jiangbei New District, Nanjing. The project occupies a total site area of 149 thousand square metres with a total GFA of 455 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB5.6 billion. The project is targeted to be completed in 2020.

(10) *Hongqi Village Project*

Hongqi Village Project is a residential and commercial project located in Putuo District, Shanghai. The project occupies a total site area of 70 thousand square metres with a total GFA of 354 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB6.6 billion. The project is targeted to be completed in 2021.

(11) *The Grandeur*

The Grandeur is a residential project located in Qixia District, Nanjing. The project occupies a total site area of 96 thousand square metres with a total GFA of 395 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB3.2 billion. The project is targeted to be completed in 2020.

(12) *Upper East*

Upper East is a residential project located in the Industrial Park in Suzhou. The project occupies a total site area of 85 thousand square metres with a total GFA of 211 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB3.6 billion. The project is targeted to be completed in 2019.

(13) *Splendid Urban Life*

Splendid Urban Life is a residential project located in the Economic and Technological Development Area in Nanchang. The project occupies a total site area of 111 thousand square metres with a total GFA of 290 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB1.2 billion. The project is targeted to be completed in 2020.

(14) *Paramount Jade*

Paramount Jade is a residential and commercial project located in Licheng District, Jinan. The project occupies a total site area of 2,564 thousand square metres with a total GFA of 7,736 thousand square metres. The lands were purchased by the Group on various dates between 2014 to 2016 for a total amount of approximately RMB16.8 billion. The project is targeted to be completed during the period from 2020 to 2023.

(15) *City In Park*

City In Park is a residential project located in Jinnan District, Tianjin. The project occupies a total site area of 2,477 thousand square metres with a total GFA of 2,964 thousand square metres. The land and project were acquired by the Group through the CITIC Assets Acquisition in 2016. The land was purchased for approximately RMB3.3 billion. The project is targeted to be completed during the period from 2019 to 2025.

(16) *Cop City Plaza*

Cop City Plaza is a residential and commercial project located in Hedong District, Tianjin. The project occupies a total site area of 136 thousand square metres with a total GFA of 1,206 thousand square metres. The land was purchased by the Group in 2015 for approximately RMB1.8 billion. The project is targeted to be completed in 2024.

(17) *La Cite (Beijing)*

La Cite is a residential and commercial project located in Shijingshan District, Beijing. The project occupies a total site area of 290 thousand square metres with a total GFA of 980 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB19.7 billion. The project is targeted to be completed during the period from 2019 to 2022.

(18) *Glorious International*

Glorious International is a residential and commercial project located in Ezhou Gedian Development Zone in Wuhan. The project occupies a total site area of 124 thousand square metres with a total GFA of 429 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB928.2 million. The project is targeted to be completed in 2020.

(19) *Essence of Noble*

Essence of Noble is a residential and commercial project located in Daxing District, Beijing. The project occupies a total site area of 74 thousand square metres with a total GFA of 227 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB3.4 billion. The project is targeted to be completed in 2019.

(20) *La Cite (Fuzhou)*

La Cite is a residential and commercial project located in Shangjie Town, Minhou County, Fuzhou. The project occupies a total site area of 174 thousand square metres with a total GFA of 736 thousand square metres. The land was purchased by the Group in 2013 for approximately RMB3.9 billion. The project is targeted to be completed in 2023.

(21) *Cozy Land*

Cozy Land is a residential project located in Nansha District, Guangzhou. The project occupies a total site area of 79 thousand square metres with a total GFA of 248 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB1.8 billion. The project is targeted to be completed in 2021.

(22) *The Piedmont*

The Piedmont is a residential and commercial project located in Shunde District, Foshan. The project occupies a total site area of 149 thousand square metres with a total GFA of 386 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB1.8 billion. The project is targeted to be completed in 2019.

(23) *Jade Palace*

Jade Palace is a residential project located in Yuhua District, Changsha. The project occupies a total site area of 71 thousand square metres with a total GFA of 351 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB1.1 billion. The project is targeted to be completed in 2020.

(24) *Coast Mansion*

Coast Mansion is a residential and commercial project located in Shenzhou Peninsula, Hainan. The project occupies a total site area of 145 thousand square metres with a total GFA of 250 thousand square metres. The land and project were acquired by the Group through the CITIC Assets Acquisition in 2016. The land was purchased for approximately RMB49.6 billion. The project is targeted to be completed in 2019.

(25) *Guangzhou Asian Games City*

Guangzhou Asian Games City is a residential and commercial project located in Panyu, Guangzhou. The project occupies a total site area of 1,580 thousand square metres with a total GFA of 5,850 thousand square metres. The land and project were acquired by the Group through the CITIC Assets Acquisition in 2016. The land was purchased for approximately RMB5.3 billion. The project is targeted to be completed in 2020.

(26) *Glory City*

Glory City is a residential and commercial project located in Tianfu New District, Chengdu. The project occupies a total site area of 380 thousand square metres with a total GFA of 1,904 thousand square metres. The land and project were acquired by the Group through the CITIC Assets Acquisition in 2016. The land was purchased in 2015 for approximately RMB1.7 billion. The project is targeted to be completed in 2021.

(27) *Qinhuangsi Project*

Qinhuangsi Project is a residential and commercial project located in Tianfu New District, Chengdu. The project occupies a total site area of 200 thousand square metres with a total GFA of 1,826 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB4.8 billion. The project is targeted to be completed during the period from 2020 to 2027.

(28) *The Great City*

The Great City is a residential project located in Qujiang New District, Xi'an. The project occupies a total site area of 444 thousand square metres with a total GFA of 1,357 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB1.3 billion. The project is targeted to be completed in 2022.

(29) *THE U WORLD*

THE U WORLD is a residential and commercial project located in Guandu District, Kunming. The project occupies a total site area of 117 thousand square metres with a total GFA of 756 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB2.9 billion. The project is targeted to be completed in 2021.

(30) *Upward Mansion*

Upward Mansion is a residential project located in Wuhua District, Kunming. The project occupies a total site area of 103 thousand square metres with a total GFA of 523 thousand square metres. The land was purchased by the Group in 2018 for approximately RMB1.5 billion. The project is targeted to be completed in 2019.

(31) *Royal Mansion*

Royal Mansion is a residential and commercial project located in Shuangliu District, Chengdu. The project occupies a total site area of 104 thousand square metres with a total GFA of 439 thousand square metres. The land was purchased by the Group in 2017 for approximately RMB3.4 billion. The project is targeted to be completed in 2020.

Major Properties under Development

Name of property and location	Intended Use	Year of Expected Completion	Site Area	GFA	The Group's Interest
			('000 square metres)	('000 square metres)	(per cent.)
Coli City *Yuhong District, Shenyang*	Residential	2020	1,254	3,281	100
Gate of Peace *Heping District, Shenyang*	Residential/Commercial	2019–2021	495	2,255	100
International Community *Gaoxin District, Yantai*	Residential/Commercial	2020	452	1,376	100
Glorious City *Fushan District, Yantai*	Residential	2020	120	393	100
Flourishing City *Economic and Technological Development Area, Changchun*	Residential/Commercial	2019–2023	414	1,118	100
Master Mansion *Economic and Technological Development Area, Changchun*	Residential/Commercial	2022	172	1,086	100
Glory Mansion *Ganjingzi District, Dalian*	Residential/Commercial	2020	153	532	100
La Cite *Xinwu District, Wuxi*	Residential/Commercial	2021	245	845	100
Jiangbei New District Project *Jiangbei New District, Nanjing*	Residential/Commercial	2020	149	455	100
Hongqi Village *Putuo District, Shanghai*	Residential/Commercial	2021	70	354	70
The Grandeur *Qixia District, Nanjing*	Residential	2020	96	395	65
Upper East *Industrial Park, Suzhou*	Residential	2019	85	211	100
Splendid Urban Life *Economic and Technological Development Area, Nanchang*	Residential	2020	111	290	100
Paramount Jade *Licheng District, Jinan*	Residential/Commercial	2020–2023	2,564	7,736	100
City In Park *Jinnan District, Tianjin*	Residential	2019–2025	2,477	2,964	100
Cop City Plaza *Hedong District, Tianjin*	Residential/Commercial	2024	136	1,206	51
La Cite *Shijingshan District, Beijing*	Residential/Commercial	2019–2022	290	980	100
Glorious International *Ezhou Gedian Development Zone, Wuhan* . .	Residential/Commercial	2020	124	429	50
Essence of Noble *Daxing District, Beijing*	Residential/Commercial	2019	74	227	100
La Cite *Shangjie Town, Minhou County, Fuzhou* . . .	Residential/Commercial	2023	174	736	100
Cozy Land *Nansha District, Guangzhou*	Residential	2021	79	248	100
The Piedmont *Shunde District, Foshan*	Residential/Commercial	2019	149	386	100
Jade Palace *Yuhua District, Changsha*	Residential	2020	71	351	100
Coast Mansion *Shenzhou Peninsula, Hainan*	Residential/Commercial	2019	145	250	100
Guangzhou Asian Games City *Panyu District, Guangzhou*	Residential/Commercial	2020	1,580	5,850	20
Glory City *Tianfu New District, Chengdu*	Residential/Commercial	2021	380	1,904	100
Qinhuangsi Project *Tianfu New District, Chengdu*	Residential/Commercial	2020–2027	200	1,826	100

Name of property and location	Intended Use	Year of Expected Completion	Site Area	GFA	The Group's Interest
			('000 square metres)	('000 square metres)	(per cent.)
The Great City *Qujiang New District, Xi'an*	Residential	2022	444	1,357	50
THE U WORLD *Guandu District, Kunming*	Residential/Commercial	2021	117	756	100
Upward Mansion *Wuhua District, Kunming*	Residential	2019	103	523	60
Royal Mansion *Shuangliu District, Chengdu*	Residential/Commercial	2020	104	439	100

Property Sales

Property sales include both pre-sales and sales of properties from stock in a particular period. The Group and its joint ventures and associates sold a total GFA of approximately 15.93 million square metres in 2018.

The table below sets out information regarding the level of property sales by region of the Group and its joint ventures and associates in 2017 and 2018.

	Property Sales in Value		Property Sales in GFA	
	2017	2018	2017	2018
	(HK$ billions)		('000 square metres)	
Hua Nan Region[(1)]	26.4	36.0	1,417.4	1,382.4
Hua Dong Region[(2)]	21.2	41.1	841.1	1,558.6
Hua Bei Region[(3)]	43.5	57.6	2,347.2	2,444.2
Northern Region[(4)]	34.3	38.4	2,987.2	2,932.5
Western Region[(5)]	18.3	26.1	1,493.7	1,691.1
Hong Kong and Macau	12.0	5.5	52.3	25.1
Sub-total for the Group	155.7	204.7	9,138.9	10,033.9
Joint Ventures and Associates	39.3	46.0	1,912.3	1,902.2
COGO	37.1	50.5	3,412.0	3,998.4
Total	**232.1**	**301.2**	**14,463.2**	**15,934.5**

Notes:

(1) Hua Nan Region includes Shenzhen, Haikou, Wanning, Sanya, Foshan, Guangzhou, Changsha, Xiamen, Fuzhou, Zhuhai, Dongguan, Zhongshan, Zhaoqing, Zhangzhou, Jiangmen

(2) Hua Dong Region includes Suzhou, Nanjing, Ningbo, Hangzhou, Nanchang, Shanghai, Wuxi, Zhenjiang

(3) Hua Bei Region includes Beijing, Tianjin, Jinan, Taiyuan, Wuhan, Zhengzhou

(4) Northern Region includes Changchun, Qingdao, Dalian, Shenyang, Yantai, Harbin

(5) Western Region includes Chengdu, Xi'an, Chongqing, Kunming, Urumqi

Land Bank

The Group acquires land in developing cities and districts in the PRC to support its property development growth and to allow it greater balance in the distribution of its investment across the PRC.

As at 31 December 2018, the Group and its joint ventures and associates (excluding COGO) had a total land bank of approximately 70.10 million square metres (with an attributable interest of approximately 56.97 million square metres), while COGO had a total land bank of approximately 21.34 million square metres (with an attributable interest of approximately 19.98 million square metres) in a total of 64 PRC cities as well as Hong Kong and Macau. The Group's management believes that, subject to market conditions, this reserve lays a solid foundation for sustainable development over the next several years, although it will seek to expand its land bank opportunistically. The land bank of the Group and its joint ventures and associates (excluding COGO) was well spread across the PRC with approximately 26.3 per cent., 21.4 per cent., 20.6 per cent., 20.1 per cent. and 11.2 per cent. situated in Hua Bei region, Northern region, Western region, Hua Nan region and Hua Dong region, respectively, as at 31 December 2018.

In 2018, the Group acquired 63 parcels of land in 28 PRC cities and Hong Kong and increased its total land bank by approximately 17.64 million square metres (with an attributable interest of approximately 12.72 million square metres), while COGO acquired 25 parcels of land in 14 PRC cities and increased its land bank by approximately 5.02 million square metres (with an attributable interest of approximately 4.74 million square metres), as more fully described below. The following table shows the land parcels acquired by the Group for the year ended 31 December 2018:

City	Name of Project	Attributable Interest	Land Area	Total GFA	Attributable GFA	Attributable Land Premium
		(per cent.)	('000 square metres)	('000 square metres)	('000 square metres)	(RMB millions)
Foshan	Shunde District Project	100	149	386	386	1,840
Hangzhou	Binjiang District Project	100	23	89	89	2,213
Beijing	Changping District Project	100	175	490	490	5,450
Guangzhou	Nansha District Project	100	79	234	234	1,824
Shenzhen	Pingshan District Project	100	19	124	124	1,254
Beijing	Daxing District Project #1	100	74	206	206	3,275
Kunming	Wuhua District Project	60	103	515	309	1,477
Urumqi	Shuimogou District Project #1	100	34	145	145	603
Urumqi	Shuimogou District Project #2	100	35	143	143	615
Shenyang	Hunnan District Project	100	180	450	450	1,744
Guangzhou	Panyu District Project	14.28	76	366	52	474
Chongqing	Banan District Project	51	89	299	153	367
Wuhan	Jiang'an District Project #1	51	22	130	66	551
Xi'an	Changan District Project	100	131	569	569	1,360
Jinan	Gaoxin District Project #1	34	200	450	153	846
Changsha	Yuhua District Project	100	71	343	343	1,117
Qingdao	Gaoxin District Project #1	100	86	232	232	872
Beijing	Daxing District Project #2	33	31	128	42	483
Kunming	Guandu District Project	100	117	584	584	2,850
Urumqi	Gaoxin District Project	100	17	76	76	332
Chongqing	Nanchuan District Project	100	121	292	292	205
Urumqi	Huizhan Pian District Project	100	58	240	240	781
Fuzhou	Gaoxin District Project	100	30	112	112	788
Changchun	Beihu District Project	100	172	572	572	2,029
Tianjin	Hongqiao District Project	25	52	242	60	880
Jinan	Gaoxin District Project #2	33	215	474	156	818
Nanchang	Xinjian District Project	100	64	106	106	491
Hangzhou	Xihu District Project	100	39	134	134	3,339
Foshan	Shunde District Project	100	17	55	55	336
Nanchang	Ganjiang New District Project	100	111	282	282	1,204
Suzhou	Gaoxin District Project	51	54	159	81	1,599

City	Name of Project	Attributable Interest	Land Area	Total GFA	Attributable GFA	Attributable Land Premium
		(per cent.)	('000 square metres)	('000 square metres)	('000 square metres)	(RMB millions)
Ningbo	Yinzhou District Project	100	37	107	107	769
Nanjing	Jiangbei New District Project	100	149	457	457	5,640
Zhengzhou	Zhengdong New District Project	100	52	139	139	1,575
Yantai	Fushan District Project	100	120	415	415	477
Beijing	Daxing District Project #3	100	40	145	145	1,727
Harbin	Songbei District Project	100	63	129	129	685
Jinan	Licheng District Project	100	70	307	307	979
Harbin	Daoli District Project #1	100	48	158	158	752
Beijing	Chaoyang District Project	100	75	143	143	2,910
Changchun	Beihu Technology Development District Project	100	200	530	530	1,572
Ezhou	Gedian Development District Project	50	124	427	213	928
Shanghai.	Putuo District Project #1	70	15	55	39	1,357
Shanghai.	Putuo District Project #2	70	24	117	82	2,619
Shanghai.	Putuo District Project #3	70	23	85	60	2,051
Shanghai.	Putuo District Project #4	70	9	97	68	553
Harbin	Daoli District Project #2	100	47	154	154	620
Wuhan	Jiang'an District Project #2	99	18	147	145	1,370
Beijing	Shijingshan District Project	80	61	246	197	3,867
Qingdao	Shibei District Project	100	43	181	181	996
Guangzhou	Zengcheng District Project #1	25	133	596	149	1,249
Guangzhou	Zengcheng District Project #2	20	85	380	76	644
Fuzhou	Jinan District Project	50	35	137	69	544
Dalian	Gaoxin Yuan District Project	100	67	180	180	1,602
Wuhan	Caidian District Project	100	91	361	361	753
Yantai	Zhifu District Project	100	30	53	53	264
Qingdao	Gaoxin District Project #2	18	318	1,160	209	386
Qingdao	Gaoxin District Project #3	18	293	1,217	219	408
Chengdu	Tianfu New District Project	100	64	182	182	1,454
Changchun	Jingyue District Project	100	133	311	311	1,312
Suzhou	Gongye Yuan District Project	100	9	154	154	575
Shanghai.	Pudong New District Project	49	103	189	93	1,684
Hong Kong	Kai Tak Project	100	9	55	55	7,014
Total:			**5,232**	**17,641**	**12,716**	**91,353**

The following table shows the 25 land parcels acquired by COGO through public land auctions for the year ended 31 December 2018:

City	Name of Project	Attributable Interest	Land Area	Total GFA	Attributable GFA	Attributable Land Premium
		(per cent.)	('000 square metres)	('000 square metres)	('000 square metres)	(RMB millions)
Liuzhou	Yufeng District Project	100	95	270	270	1,828
Yancheng. . .	Chengnan New District Project	100	103	277	277	1,160
Baotou.	Xindoushi District Project #1	60	166	462	277	391
Lanzhou. . . .	Qilihe District Project	100	78	325	325	1,759
Nantong	Chongchuan District Project	30	47	138	41	255
Hefei	Shushan District Project #1	100	54	96	96	658
Hefei	Shushan District Project #2	100	63	110	110	767
Ganzhou . . .	Jingkai District Project	100	71	217	217	744
Baotou.	Xindoushi District Project #2	100	54	117	117	370
Hohhot	Saihan District Project	100	80	250	250	1,312
Jining	Rencheng District Project	100	190	424	424	1,189
Huizhou	Huicheng District Project #1	100	29	116	116	365
Jilin.	Changyi District Project #1	100	48	136	136	304
Jilin.	Changyi District Project #2	100	12	24	24	64
Jilin.	Changyi District Project #3	100	26	75	75	133
Jilin.	Changyi District Project #4	100	35	112	112	203
Jilin.	Chuanying District Project	100	64	156	156	158
Nantong	Kaifa District Project	100	57	182	182	983
Huizhou	Huicheng District Project #2	100	53	246	246	1,102
Yinchuan . . .	Jinfeng District Project	100	199	339	339	657
Yangzhou. . .	Hanjiang District Project #1	100	102	222	222	844
Nanning	Qingxiu District Project #1	100	182	283	283	983
Nanning	Qingxiu District Project #2	100	30	47	47	205
Hefei	Baiyan Technology Park District Project	100	83	211	211	1,246
Yangzhou. . .	Hanjiang District Project #2	100	73	188	188	1,064
Total:			**1,994**	**5,023**	**4,741**	**18,744**

Property Development Process

Development of the Group's properties usually entails six phases: land acquisition, project planning and preliminary work, design, project construction, pre-sales and sales, and after-sales services.

The typical development cycle for vacant land in the PRC is approximately three years, whereas the development cycle for urban property projects can be longer, particularly for project sites that are not vacant at the time of acquisition.

The Group is involved in the different stages of the development process in order to control the costs, schedule and quality of its projects. Except for the design and construction of development projects, the Group oversees and largely performs all aspects of its development operations, including the selection and purchase of sites, the preparation of feasibility studies, the obtaining of government approvals for development, supervision of the design and construction of development projects, and the marketing and management of completed projects.

Site selection and product positioning

The Group undergoes a site selection process and conducts an in-depth market analysis in order to understand the trends of the property market and market prices before it commences or launches a property development. The major site selection criteria applied by the Group include the following:

- development plans (of the government) for the relevant site;
- accessibility of the site and available infrastructural support;
- consumer demand for properties in that area;
- competition from other developments in the locality;
- its convenience and the amenities close to the site (such as natural parks, greenery, schools, rivers and commercial facilities); and
- cost, investment and financial return ratios.

Land acquisition

Prior to 2002, most of the land use rights owned by the Group were obtained from other land developers, either by direct purchases or as part of a joint venture arrangement, or from the local land bureau by agreement.

For land use rights obtained after 2002, the Rules Regarding the Grant of State-Owned Construction Land Use Rights by Way of Competitive Bidding, Public Auction and Public Trading promulgated by the Ministry of Land and Resources with effect from 1 July 2002, which was revised and became effective on 1 November 2007, provided that, with limited exemptions, state-owned land use rights for the purposes of industrial and commercial use, tourism and entertainment and commodity residential properties in the PRC can only be granted by the government through public competitive bidding, public auction or public trading on land exchanges. The property developers must pay in full the land premium for the entire parcel under the land grant contract before they can receive a land use right certificate and commence development on the land.

Financing of property developments

The Group has three main sources of funding for its property developments: internal resources, bank loans and debt financing, as well as proceeds from pre-sales. The Group's financing method varies from property to property. Generally, the Group finances its property developments with internal resources to the extent practicable and pre-sells the development where the regulatory requirements for pre-sale have been met and, where market conditions allow, in order to reduce the level of external funding required.

Design

Construction design entails all aspects of the projection and design of a property development including planning, architecture, landscaping and interior design.

Marketing and promotion

During project evaluation and before commencement of construction, the Sales and Marketing Management Department of the Group usually carries out substantial market research for particular projects, including the identification of property trends, prospects and market potential. By identifying the potential demand for, and strengths and weaknesses of, a project at an early stage, the Group is able to formulate its marketing and promotion strategies at the planning stage of each project and to target its sales efforts at potential classes of purchasers for the project throughout its development.

The Sales and Marketing Management Department is also responsible for marketing new properties developed by the Group. The Group promotes and markets its developed properties through various media outlets, including television, radio, newspapers and magazines, the Internet and billboards. The Group also participates in property exhibitions and other marketing activities.

Development, construction and management

Apart from various centralised departments that oversee and control the major steps of all the developments undertaken by the Group, the Group has established individual project companies that are responsible for day-to-day operations and project management of each individual project. The centralised departments, which include the Sales and Marketing Management Department, the Design Management Department, the Project Management Department and the Cost Management Department, assume control of all the major stages of the development, including project identification, project planning and design, and budget control through organised tenders. Each individual project company is responsible for implementing infrastructure and installation of basic utilities, engineering and supervision of day-to-day construction work.

The Group engages third-party contractors (including CSCECL) to provide various services, including construction, piling and foundation, building and property fitting-out work, interior decoration and installation of air-conditioning units and elevators. The Group's development projects are usually undertaken by contractors selected by way of open tender and it is the Group's policy to solicit bids from at least three contractors or suppliers. The tender procedures must comply with the relevant local regulations.

The Group controls development costs at the early stage of the project development process. Its in-house design team focuses on the selection of materials and construction methods to minimise costs.

Purchases from the five largest suppliers of the Group accounted for less than 30 per cent. of the Group's total purchases for the year ended 31 December 2018.

Quality management system

The Group is required to comply with relevant regulations and industry standards. Quality control procedures are in place in different functional departments of the Group as well as in each project company.

Internal guidelines have been established and are monitored to ensure control over documentation, recordkeeping, internal audit, service standards, remedial actions, preventive actions, management control, construction standards, staff quality, recruitment standards, staff training, construction supervision, supervisory inspection, monitoring and surveillance, information exchange and data analysis.

Pre-sales

The Group must apply to the relevant government authorities for pre-sale permits before commencing pre- sales of its properties. Such permits will normally be issued only when, amongst other things: (i) the land premium has been paid in full; (ii) the land use right certificate, the construction land planning permit, the construction work planning permit and the construction project building permit have been obtained; and (iii) the fund put into the development and construction has reached 25 per cent. of the total amount of investments of the project construction as calculated on the basis of the commodity housing provided for pre-sale, and the construction progress and the completion and delivery dates have been determined.

Under PRC laws and regulations, the proceeds from the pre-sales of the Group's properties must be deposited in escrow accounts. Before the completion of the pre-sold properties, the money deposited in these escrow accounts may only be used to purchase construction material and equipment, make interim construction payments and pay taxes, subject to prior approval from the relevant local authorities. As at the date of this Offering Circular, the Group has been in compliance, in all material respects, with the relevant laws and regulations applicable to the pre-sale of properties in the PRC.

Payment method and mortgage financing

Purchasers may pay for the Group's properties by way of a lump sum payment, payment in instalments or payment with mortgage facilities. The Group typically requires its purchasers to pay a non-refundable deposit upon entering into provisional purchase contracts. If the purchasers later decide not to enter into formal purchase contracts, the Group will forfeit such deposits. If the purchasers choose to fund their purchases by mortgage loans provided by banks, it is their own responsibility to apply for and obtain the mortgage approvals. Upon request, the Group may also assist mortgage applicants by providing the relevant property information to expedite the application process.

Most of the Group's customers purchase their properties through mortgage financing. The Group makes arrangements with various domestic banks to provide mortgage facilities to purchasers of its properties. The Group provides guarantees to mortgagee banks in respect of mortgages offered to its customers, but only from the date of the relevant mortgage up to typically either submission of the relevant property ownership certificates by the relevant customer to the mortgagee bank or completion of the registration of the mortgage with the relevant local authority. When submission of relevant ownership certificates is required, the guarantee period for such preregistration guarantee normally lasts for up to 18 months. In other situations, the guarantee period for a preregistration guarantee is shorter. If, during the guarantee period, a borrower defaults on its repayment obligations, the Group is liable to the mortgagee bank for the amount owing to them from the borrower, but it will have the right to take possession and re-sell the mortgaged property upon satisfaction of the Group's obligations under the guarantee. Accordingly, the period in which the Group actually bears the credit risk of its customers starts from the date of the relevant mortgage and ends on the date when the registration of the mortgage with the relevant local authority is completed. In line with industry practise, the Group does not conduct independent credit checks on its purchasers but relies on the credit checks conducted by the mortgagee banks. As at 31 December 2018, the Group's outstanding guarantees over the mortgage loans of its customers amounted to approximately HK$45.9 billion. The Group has not experienced any default by a significant portion of such customers under pre-registration guarantees.

After-sales services

The Group assists its customers in arranging for and providing information relating to financing, including information on potential mortgagee banks and the mortgage terms they offer. It also assists its customers in various title registration procedures relating to the properties.

The Group maintains a client relationship management system to foster customer relationships. The Customer Services Department carries out customer surveys with the purchasers normally one year after delivery of possession to seek customer feedback on the design and quality of the properties and the quality of the Group's customer and management services. Such data is then used when developing and planning new projects. The Group also has a subdivision devoted to handling customer complaints and maintenance and repair requests.

PROPERTY INVESTMENT

Property investment is another source of revenue for the Group. For the years ended 31 December 2016, 2017 and 2018, revenue from property investments amounted to approximately HK$2,137.2 million, HK$2,450.1 million and HK$3,533.5 million, respectively, accounting for approximately 1.30 per cent., 1.48 per cent and 2.06 per cent. of the Group's revenue, respectively. The Group will seek to grow this business segment as a revenue generator for the Group.

The Group's rents are generally quoted per square foot and square metre of lettable area in Hong Kong and the PRC, respectively. In most cases, the rents quoted by the Group do not include property management charges and rates payable by its tenants.

Office and commercial leases are typically entered into for two to three year terms with some having the option to renew. In connection with longer-term leases, the tenancy agreements usually contain rent review clauses or rent adjustment provisions. The rental income from the investment portfolio is expected to continue to provide a stable and recurrent income base to the Group.

As at 31 December 2018, completed commercial properties held by the Group and its joint ventures and associates comprised a total of 42 office buildings, 13 shopping malls and 12 star-rated hotels, with a total area of approximately 4.09 million square metres.

Major Completed Investment Properties

The following table summarises certain of the Group's major completed investment properties as at 31 December 2018:

Project Name	City	Use	The Group's interest	Year of expiry of lease term	Area
			(per cent.)		('000 square metres)
China Overseas Plaza	Beijing	Office Building	100	2053	145
China Overseas Property Plaza	Beijing	Office Building	100	2043	88
China Overseas International Center of Aonan Community Uni ELITE	Beijing	Office Building and Shopping Mall	100	2060 2050	128
China Overseas Building	Beijing	Office Building	100	2053	50
China Overseas Property Building	Beijing	Office Building	100	2051	25
Beijing (H Parcel)	Beijing	Office Building	100	2054	29
China Overseas International Center Phase One to Three	Chengdu	Office Building	100	2047	388
China Overseas International Center Block FG	Chengdu	Office Building	100	2051	144
Block J, West Lot of China Overseas International Center	Chengdu	Office Building	100	2052	90
China Overseas Building	Qingdao	Office Building	100	2047	61
China Overseas Plaza	Jinan	Office Building	100	2049	104
China Overseas Building	Xi'an	Office Building	100	2080	35
Block AB, China Overseas International Center	Shenyang	Office Building	100	2050	115
China Overseas Building	Wuhan	Office Building	100	2053	61
China Fortune Tower	Shanghai	Office Building	51	2054	96
China Overseas International Center Uni ELITE	Shanghai	Office Building and Shopping Mall	100	2056 2046	159
China Overseas Building	Tianjin	Office Building	100	2055	95
China Overseas Plaza	Tianjin	Office Building	100	2053	95
China Overseas Wealth Center	Tianjin	Office Building	100	2055	75
China Overseas International Center	Taiyuan	Office Building	100	2053	270
One Finsbury Circus	London	Office Building	100	Freehold	19
61 Aldwych	London	Office Building	100	Freehold	16
Carmelite House	London	Office Building	100	Freehold	12
One South Place (The Helicon)	London	Office Building	100	Freehold	21
China Overseas Plaza Mid-Town	Zhuhai	Office Building and Shopping Mall	100	2060 2050	204
Unipark Shopping Mall	Jinan	Shopping Mall	100	2049	76
Unipark Shopping Mall	Nanjing	Shopping Mall	100	2048	132
Unipark Shopping Mall	Foshan	Shopping Mall	100	2052	131
Unipark Shopping Mall	Changsha	Shopping Mall	100	2046	204

Major Investment Properties Under Development

The following table shows certain of the Group's major investment properties under development as at 31 December 2018:

Project Name	City	Intended use	The Group's interest	Year of expiry of lease term	Area	Year of expected completion
			(per cent.)		('000 square metres)	
Project JA.	Beijing	Office Building	100	2055	70	2019
China Overseas International Building	Tianjin	Office Building	100	2049	170	2019
China Overseas Building . . .	Zhuhai	Office Building, Shopping Mall and Hotel	100	2058	335	2020
Meijiatang Project.	Nanjing	Office Building	100	2057	156	2020
Beixinan Project.	Beijing	Office Building	100	2067	230	2020
Wansong Garden Project . . .	Wuhan	Office Building and Shopping Mall	100	2057	81	2020
Binjiang Commercial Project.	Ningbo	Shopping Mall	100	2056	136	2021
Qinhuangsi Project	Chengdu	Office Building, Apartment and Hotel	100	2058	678	To be confirmed

OTHER OPERATIONS

The Group is also involved in a range of other operations including hotel operation and construction and building design consultancy services. These property-related businesses supplement the Group's property development and investment property business. Income generated from hotels and other commercial properties amounted to approximately HK$530.0 million for the year ended 31 December 2018, representing a year-on-year increase of 8.2 per cent. since 2017.

Building Design and Consultancy

The Group operates its construction and building design consultancy services business through a subsidiary, Hua Yi Designing Consultants Limited ("**Hua Yi**"), which was established in 1986. Hua Yi has attained "Grade A Architectural Design Qualification" and "Grade A Urban Planning Qualification", with a talent pool of around 700 professional designers and top-notch experts in the industry. Hua Yi has completed over 2,000 architectural and engineering design projects within Mainland China and has been granted excellent design awards at national, provincial and ministerial levels.

COMPETITION

The property market in the PRC is highly fragmented and there is no dominant market player. The Group's existing and potential competitors include major domestic state-owned, collectively-owned and private developers and foreign developers from the rest of Asia (including several leading developers from Hong Kong).

With respect to its investment properties, the Group competes with other major property developers to attract residential, commercial and industrial tenants and to draw customers to the retail outlets, restaurants and carparks in its developments. The Group competes for tenants, primarily based upon the quality and location of its buildings, its reputation as a building owner and the quality of its support services.

The Group regards China Resources Land Ltd., China Vanke Co., Ltd., China Evergrande Group and Country Garden Holdings Company Limited as other major participants in the PRC's national property market. In addition, the Group competes with local property developers in each of the regions and cities in which it operates.

DEBT MATURITY

The maturities of the Group's bank and other borrowings and notes payable as at 31 December 2018 are set out below:

	As at 31 December 2018	
	(HK$ millions)	(US$ millions)
Bank and other borrowings and notes payable		
Within one year	30,904.4	3,946.7
More than one year	165,044.6	21,077.1
Total	**195,949.0**	**25,023.8**

EMPLOYEES

As at 31 December 2018, the Group had a total of approximately 5,900 employees. As at the date of this Offering Circular, none of the Group's employees are members of a trade union and the Group has not experienced any significant strikes or other material disruptions due to labour disputes. The Group's management believes that the Group maintains a good relationship with its employees.

The Group has established a wide range of training and development programmes for its employees. In addition to providing internal courses, the Group also engages outside professionals and consultants to organise seminars and training courses to equip its employees with up-to-date industry knowledge. The Group also sponsors its employees to attend external training programmes organised by local and overseas institutions to acquire advanced knowledge and skills.

ENVIRONMENTAL AND SAFETY MATTERS

The Group is subject to PRC environmental laws and regulations as well as environmental regulations promulgated by government authorities. These include regulations on air pollution, noise emissions and water and waste discharge. Each property developed by the Group must undergo environmental assessments and an environmental impact study report needs to be submitted to the relevant government authorities before approval is granted for commencement of the property development, except for some early property developments which were approved before the applicable environmental laws were promulgated. At completion of each property, the relevant government authorities will also need to inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record.

The Group's operations are also subject to inspections by government authorities with regard to various safety and environmental issues. The Group's management believes that the Group is in compliance in all material respects with applicable governmental regulations in the jurisdictions in which the Group operates. Compliance with such laws has not had, and in management's opinion is not expected to have, a material adverse effect upon the Group's capacity, expenditure, earnings or competitive position. As at the date of this Offering Circular, the Group is not aware of any governmental proceedings or investigations to which it or any member of the Group is or might become a party and which may have a material adverse effect on its properties and operations.

LEGAL PROCEEDINGS

As at the date of this Offering Circular, the Group is not aware of the Guarantor or any of its subsidiaries being involved in any litigation or arbitration proceeding that would have a material adverse effect on the business or financial position of the Group or the Guarantor and no material litigation or claim is known by the Group to be pending or threatened against the Guarantor or any of its subsidiaries or the Group.

INSURANCE

The Group maintains insurance coverage on all of its properties under construction, third party liabilities and employer's liabilities. The insurance policies generally cover the period from the commencement of construction of the properties by the Group up to the transfer of the completed properties to its customers. Certain types of losses, however, such as war, civil disorder, acts of terrorism, earthquakes, typhoons, flooding, and other natural disasters, are not covered. This practise is consistent with what the Group's management believes to be the industry practise in the PRC.

PRC REGULATIONS

The following discussion summarises the principal laws, regulations, policies and administrative directives to which the Group is subject.

THE PRC LEGAL SYSTEM

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

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

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

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

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

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed in June 1981, the Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organised into civil, criminal, economic and administrative divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in China. It supervises the administration of justice by all other courts.

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

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

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgement or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgement, order or award. There are time limits imposed on the right to apply for such enforcement.

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

REAL ESTATE REGULATION

Establishment of a Real Estate Development Enterprise

According to the PRC Law on Administration of Urban Real Estate (中華人民共和國城市房地產管理法), promulgated by the National People's Congress, effective in January 1995, amended in August 2007 and in August 2009, a real estate developer is defined as an enterprise that engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例), promulgated by the State Council in July 1998, as amended in January 2011, March 2018 and in March 2019, an enterprise that is to engage in development of real estate must satisfy the following requirements, in addition to other enterprise establishment conditions provided in relevant laws and administrative regulations:

(i) its registered capital must be RMB1 million or more; and

(ii) it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate.

The local government of a province, autonomous region or municipality directly under the PRC central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

To establish a real estate development enterprise, the developer must apply for registration with the administration for industry and commerce. The developer must also report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business licence. Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

Pursuant to the Circular on Adjusting and Perfecting 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) issued by the State Council in September 2015, the minimum portion of the capital funding for ordinary commodity housing projects and affordable housing projects has been reduced to 20 per cent., while that for other real estate projects has been decreased to 25 per cent.

In July 2006, the Ministry of Construction, the Ministry of Commerce, the NDRC, PBOC, State Administration for Industry and Commerce ("**SAIC**") and State Administration of Foreign Exchange ("**SAFE**") jointly issued an Opinion on Standardising the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見), which provides, among other things, that an overseas entity or individual investing in real estate in China other than for self-use must apply for the establishment of a foreign-invested real estate enterprise ("**FIREE**") in accordance with applicable PRC laws and may only conduct operations within the authorised business scope. The joint opinion attempts to impose additional restrictions on the establishment and operation of FIREE by regulating the amount of registered capital as a percentage of total investment in certain circumstances, limiting the validity of approval certificates and business licences to one year, restricting the ability to transfer equity interests of a FIREE or its projects and prohibiting the borrowing of money from domestic and foreign lenders where its registered capital is not paid up or the land use rights not obtained. In addition, the joint opinion also limits the ability of foreign individuals to purchase commodity residential properties in China.

In August 2015, the Ministry of Construction, the Ministry of Commerce, the NDRC, PBOC, SAIC and SAFE jointly issued the "Circular of the Ministry of Housing and Urban-rural Development and Other Authorities on Adjusting Policies on the Market Access and Administration of Foreign Investment in the Real Estate Market" (住房城鄉建設部等部門關於調整房地產市場外資准入和管理有關政策的通知), which adjusts the relevant policies on the purchase of houses by FIREE prescribed in the joint opinion issued in July 2006. The Circular provides that: (i) The ratio of registered capital to total investment of FIREE shall be subject to the Tentative Regulations of the State Administration for Industry and Commerce on the Proportion of the Registered Capital to the Total Amount of Investment of Sino-foreign Equity Joint Ventures (Gong Shang Qi Zi [1987] No. 38); (ii) the requirement that a FIREE must fully pay its registered capital before handling the procedures for domestic loans, foreign loans, and settlement of foreign exchange loans shall be canceled; (iii) the branches and representative offices of foreign institutions established in China (except for the companies that are approved to operate real estate businesses) and the foreign individuals that work or study in China may purchase commodity houses for the purposes of self-use or living. In the cities that implement the policies of restriction on house purchasing, the foreign individuals shall satisfy such local policies before purchasing a house; and (iv) as from the date of this Circular, FYREE may directly apply to the banks for the foreign exchange registration related to foreign direct investment in accordance with the relevant rules on foreign exchange administration.

In May 2007, the Ministry of Commerce and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector ("**Circular 50**") (商務部、國家外匯管理局關於進一步加強規範外商直接投資房地產業審批和監督的通知) as amended in October 2015. Under Circular 50, prior to applying for establishment of real estate companies, foreign investors must first obtain land use rights and building ownership or must have entered into pre-sale or pre-grant agreements with respect to the land use rights or building ownership. If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the relevant PRC governmental authorities to expand their scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments. In addition, the local PRC governmental authorities must file with the Ministry of Commerce to record their approvals of establishment of FIREEs, and must exercise due control over foreign investments in high-end properties. Foreign exchange authorities may not allow capital-account foreign exchange sales and settlements by FIREEs that have been established in contravention of these requirements.

In connection with the filing requirement, the Ministry of Commerce issued the Notice on the Proper Filings of Foreign Investment (關於做好外商投資房地產業備案工作的通知) in the Real Estate Sector in June 2008 and the Notice on Strengthening the Administration of the Examination and Approval and Record Filling of Foreign Investment in the Real Estate Sector (關於加強外商投資房地產業審批備案管理的通知) in November 2010 to authorise the competent ministry of commerce at the provincial level to verify and check the filing documents.

Qualifications of a Real Estate Developer

Under the Provisions on Administration of Qualifications of Real Estate Developers (房地產開發企業資質管理規定) (the "**Provisions on Administration of Qualifications**") promulgated by the Ministry of Construction in November 1993 and amended by the Ministry of Housing and Urban-Rural Development on 4 May 2015, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. The Ministry of Construction oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes, including:

Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of the Ministry of Construction. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.

Class 2 or lower qualifications are regulated by the construction authorities at the provincial level subject to delegation to lower level government agencies. A real estate developer of class 2 or lower may undertake a project with a GFA of less than 250,000 square metres, subject to confirmation by the construction authorities at the provincial level.

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

For a newly established real estate developer, the real estate development authority will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year from its date of issue and may be extended for not more than two additional years with the approval of the real estate development authority. The real estate developer must apply for qualification classification to the real estate development authority within one month before expiration of the provisional qualification certificate.

Development of a Real Estate Project

According to《外商投資產業指導目錄(2017年修訂)》and《外商投資准入特別管理措施(負面清單)(2019年版)》, property development projects with foreign partners does not fall within the restricted category of Catalogue of Industries for Guiding Foreign Investment (2017 version).

Under the Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land (城鎮國有土地使用權出讓和轉讓暫行條例), promulgated by the State Council in May 1990, China adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the relevant PRC laws and regulations, the land administration authority at the city or county level may enter into a land grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. After payment in full of the land premium, the land user may register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The relevant PRC laws and regulations provide that land use rights for a site intended for real estate development must be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC government pursuant to the PRC laws or the stipulations of the State Council. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC government authorities and the land premium as determined by the relevant PRC government authorities has been paid.

When carrying out the feasibility study for a construction project, the construction or the developer entity must make a preliminary application for construction on the relevant site to the relevant land administration authority in accordance with the Measures for Administration of Examination and Approval for Construction Sites (建設用地審查報批管理辦法), promulgated by the Ministry of Land and Resources in March 1999, as amended in November 2010 and November 2016, and the Measures for Administration of Preliminary Examination of Construction Project Sites (建設項目用地預審管理辦法), promulgated by the Ministry of Land and Resources in July 2001, as amended in November 2008 and November 2016. After receiving the preliminary application, the land administration authority will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authority at the relevant city or county will sign a land use rights grant contract with the land user and issue an approval for the construction site to the construction entity or the developer.

Under the Measures for Control and Administration of Grant and Assignment of Right to Use Urban state-owned Land (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the Ministry of Construction in December 1992 and amended in January 2011, the grantee under a land grant contract (i.e. a real estate developer) must further apply for a permit for construction site planning from the relevant municipal planning authority. After obtaining such permit, a real estate developer will organise the necessary planning and design work. Planning and design proposals in respect of a real estate development project are again subject to relevant reporting and approval procedures required under the Law of the People's Republic of China on Urban and Rural Planning (中華人民共和國城鄉規劃法), promulgated by the National People's Congress in October 2007 and amended in April 2015 and April 2019 and local statutes on municipal planning. Upon approval by the authorities, a permit for construction works planning will be issued by the relevant municipal planning authority.

In accordance with the Regulations for the Expropriation of Buildings on State-owned Land and Compensation (國有土地上房屋徵收與補償條例), promulgated by the State Council in January 2011, if demolition of existing structures and removal of existing residents on the construction site need to be conducted before commencement of construction of the real estate project contemplated, the developer may apply to the local municipal, district or county level government in the place where the real estate is located for a permit for demolition and removal. Upon approval, the local government will issue a demolition and removal permit and post a demolition and removal notice to inform the inhabitants of the area subject to demolition. The designated demolition and removal party, either a local government entity or a developer, must implement the demolition and removal within the area and period specified in the demolition and removal permit. If the demolition and removal party fails to complete the demolition and removal works within the permitted period, it may, within 15 days prior to the expiration of the permit, apply to the original approval department in charge of demolition and removal for an extension.

When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a permit for commencement of works from the construction authorities at or above the county level according to the Administrative Measures for Construction Permits of Construction Projects (建築工程施工許可管理辦法), promulgated by the Ministry of Housing and Urban-Rural Development in June 2014 and amended in September 2018. According to the Notice Regarding Strengthening and Regulating the Administration of Newly-commenced Projects (國務院辦公廳關於加強和規範新開工項目管理的通知), issued by the General Office of the State Council on 17 November 2007, before commencement of construction, all kinds of projects shall fulfil certain conditions, including, among other things, compliance with national industrial policy, development plan, land supply policy and market access standard, completion of all approval and filing procedures, compliance with zoning plans in terms of site and planning, completion of proper land use procedures and obtaining proper environmental valuation approvals and construction permits or reports.

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. On 30 January 2000, the State Council promulgated and implemented the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) as amended in October 2017 and April 2019 which sets the respective quality responsibilities and liabilities for developers, construction companies, reconnaissance companies, design companies and construction supervision companies. In August 2008, the State Council issued the Regulations on Energy Efficiency for Civil Buildings (民用建築節能條例) which reduces the energy consumption of civil buildings and improves the efficiency of energy utilisation. According to this regulation, the design and construction of new buildings must meet the mandatory criteria on energy efficiency for buildings, and failure to meet such criteria will result in neither commencement of construction nor acceptance upon completion. Among other things, this regulation sets forth additional requirements for property developers in the sale of commodity buildings in this respect. After completion of construction works for a project, the real estate developer must organise an acceptance examination by relevant government authorities and experts according to the Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure (房屋建築和市政基礎設施工程竣工驗收規定) promulgated by the Ministry of Housing and Urban-Rural Development in December 2013, and file with the construction authority at or above the county level where the project is located within 15 days after the construction is qualified for the acceptance examination according to the Provisional Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案管理暫行辦法), promulgated by the Ministry of Construction in April 2000, as amended in October 2009. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. Where a property project is developed in phases, an acceptance examination may be carried out for each phase upon completion.

In China, there are two registers of property interests. Land registration is effected by the issue of land use right certificates by the relevant authorities to the land users. Land use rights may be assigned, mortgaged or leased.

The building registration is effected by the issuance of property ownership certificates to the property owners. Property or building ownership rights are only related to the building or improvements erected on the land. Under the PRC laws and regulations, all land use rights and property ownership rights that are duly registered are protected by law. Most cities in China maintain separate registries for the registration. However, Shenzhen, Shanghai, Guangzhou and some other major cities have a consolidated registry for both land use rights and the property ownership interests for the building erected on the relevant land.

Land for Property Development

In April 1988, the National People's Congress amended the PRC Constitution to permit the transfer of land use rights in accordance with the laws and regulations. In December 1988, the National People's Congress amended the Land Administration Law (中華人民共和國土地管理法) to permit the transfer of land use rights in accordance with the laws and regulations.

On 3 January 2008, the State Council issued the Notice on Promoting Economisation of Land Use (國務院關於促進節約集約用地的通知), which emphasised the strict implementation of the policy for handling idle land. According to this notice, land which has been idle for two years and which should be repossessed pursuant to the laws shall be repossessed by the government at no consideration for reuse; for land which does not meet all the legal requirements for repossession, their use shall be altered, or the idle land shall be exchanged for another piece of land of equal value, or it shall be temporarily used for alternative purposes or be treated as government land reserve temporarily pending further consideration on its use. For land which has been idle for one full year but less than two years, an idle land fee shall be charged at 20 per cent. of the value of the land grant or allocation premium.

Under current PRC laws and regulations on land administration, land for property development may be obtained only by grant except for land use rights obtained through allocation. Under the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-Sale (招標拍賣掛牌出讓國有土地使用權規定) promulgated by the Ministry of Land and

Resources, promulgated in May 2002 and amended in September 2007, land for commercial use, tourism, entertainment and commodity housing development must be granted by public tender, auction or listing-for-sale. Under these regulations, the relevant land administration authority at city or county level, or the grantor, is responsible for preparing the public tender or auction documents and must make an announcement 20 days prior to the day of public tender or auction with respect to the particulars of the land parcel and the time and venue of the public tender or auction. The grantor must also verify the qualification of the bidding and auction applicants, accept an open public auction to determine the winning tender or hold an auction to ascertain a winning bidder. The grantor and the winning tender or bidder will then enter into a confirmation followed by the execution of a contract for assignment of state-owned land use rights. Over the years, the Ministry of Land and Resources has promulgated further rules and regulations to define the various circumstances under which the state-owned land use rights may be granted by means of public tender, auction and listing-for-sale or by agreement.

Under the Regulation on Grant of State-owned Land Use Rights by Agreements (協議出讓國有土地使用權規定), promulgated by the Ministry of Land and Resources on 11 June 2003, except for the project that must be granted through tender, auction and listing as required by the relevant laws and regulations, land use right may be granted through transfer by agreement and the land premium for the transfer by agreement of the state-owned land use right shall not be lower than the benchmark land price.

The Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (國務院辦公廳關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) (Guo Ban Fa Ming Dian (2004) No. 20), issued by the General Office of the State Council on 29 April 2004, restated the principle of strict administration of the approval process for the construction land and protection of the basic farmlands.

The Notice on Issues Relating to Strengthening the Land Control (國務院關於加強土地調控有關問題的通知) (Guo Fa (2006) No. 31), promulgated by the State Council on 31 August 2006, sets forth the administration of the receipt and disbursement of the land premium, modifies the tax policies relating to the construction land, and builds up the system of publicity for the standards of the lowest price with respect to the granted state-owned land use right.

In March 2007, the National People's Congress adopted the PRC Property Rights Law (中華人民共和國物權法) which became effective on 1 October 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise proscribed by any law, the owner of construction land use rights has the right to transfer, exchange and use such land use rights as equity contributions or collateral for financing. If the state takes the premises owned by entities or individuals, it must compensate the property owners in accordance with law and protect the lawful rights and interests of the property owners.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定) (Order of the Ministry of Land and Resources No. 39) to require that land for industrial use, except land for mining, must also be granted by public tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

In October 2007, the Standing Committee of National People's Congress promulgated the PRC City and Countryside Planning Law (中華人民共和國城鄉規劃法), as amended in April 2015 and April 2019, pursuant to which a construction land planning permit must be obtained from the relevant urban and rural planning government authorities for building any structure, fixture, road, pipeline or other engineering project within an urban or rural planning area.

In November 2009, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (關於進一步加強土地出讓收支管理的通知) (Cai Zong (2009) No. 74). The notice raises the minimum down payment for land premiums to 50 per cent. and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which provides, among other things, that: (i) cities and counties that have less than 70 per cent. of their land supply designated for affordable housing, housing for redevelopment of shanty towns or small/medium residential units must not provide land for large-sized and high-end housing before the end of 2011; (ii) land and resource authorities in local cities and counties will report to the Ministry of Land and Resources and provincial land and resource authorities, respectively, regarding land with a premium rate of more than 50 per cent.; and (iii) land designated for affordable housing which is used for property development against relevant policies or which involve illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, the notice stipulated that changing the plot ratio of land without approval is strictly prohibited.

In May 2012, the Ministry of Land and Resources and the NDRC issued a Circular on the Distribution of the Catalogue for Restricted Land Use Projects (限制用地項目目錄) (2012 Version) and the Catalogue for Prohibited Land Use Projects (禁止用地項目目錄) (2012本). In this circular, the Ministry of Land and Resources and the NDRC set forth a ceiling for the land granted by local governments for development of commodity housing as follows: seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

On 22 May 2012, the Ministry of Land and Resources revised the Measures on Disposal of Idle Land (閒置土地處置辦法), which were originally published in April 1999. This amendment became effective on 1 July 2012 and includes the following significant changes or new provisions:

- Emphasising the key purposes of regulating idle land. The current version of Measures on Disposal of Idle Land re-emphasise the importance of suppressing intentional holdings of land for the purpose of resale. For example, it provides that if the real estate developer intentionally delays the commencement of construction and development for the purpose of holdings the land for resale with bad faith, and before such case is reviewed and disposed of by the government, the government should neither accept new applications for land use by the same holder of land use rights, nor register the status of transfer, lease, mortgage or information change of the land considered to be idle until sanctions have been imposed by relevant agencies;

- Readdressing the disposal method of idle land. Consistent with the April 1999 version, the amended Measures on Disposal of Idle Land once again addressed the method of disposal of idle land. If the real estate developer fails to commence the construction and development of the land for one year, the government should issue the Notice on Imposition of Land Idleness Penalty Fees to the holder of land use right. The penalty fees should be 20 per cent. of the price that the holder paid for obtaining the land use right. If the holder of land use rights failed to commence the construction and development of the land for two years, the government should issue the Notice on Decision of Revocation of Land Use Right to the holder, thereby revoking the holder's right to use land for free. However, compared with the 1999 version, the amended Measures on Disposal of Idle Land specify the procedure for determining and disposing of idle land, including:

1. Once relevant governmental authority suspects that a tract of land has become idle, it should initiate investigation within 30 days therefrom and issue a "notice on investigation of idle land" to the holder of land use right. The holder of land use right should submit explanatory materials about the development condition and reason for land idleness to the government within 30 days upon the receipt of such notice;

2. After investigation, if the government decides that the investigated land has become idle, it should issue a "notice on confirmation of idle land" to the investigated holder of land use rights, which will specify the facts and grounds for determining that the land concerned has become idle. Relevant information of the idle land will also be published on the governmental authority's official website after issuance of such notice;

3. If the idleness of land was caused by the real estate developer rather than the government, the governmental authority is entitled to impose penalty fees for the idleness or even revoke the land use right. However, before such penalty decisions are made, the government should notify the holder of the land use rights that the holder has the right to request a hearing; and

4. Once the government decides to impose penalty fees for land idleness, it should issue a "notice on imposition of land idleness penalty fees" to the holder of the land use rights, and the owner should pay the penalty fees within 30 days upon the receipt of the notice. If the government decides to revoke the land use right, the government should issue a "notice on decision of revocation of land use rights" to the holder, and the holder should cancel the registration of its land use rights from government's record within 30 days upon its receipt of such notice; and

- Specifying the circumstances where the delay of commencement of construction and development was caused by the government. If the delay of commencement of construction and development was caused by the government, the real estate developer will not be directly subject to penalties for delays caused by the developer itself. The amended Measures on Disposal of Idle Land specify the following circumstances where the delay of commencement of construction and development is considered to be caused by the government:

1. Where the land fails to be delivered to the holder of the land use rights in accordance with the time limit and conditions as prescribed in the land transfer contract or the land allocation decision, with the result that the conditions for commencing the construction and development of the project are not met;

2. Where relevant land-use planning is modified, with the result that the owner of the land use rights cannot commence construction and development;

3. Where the land-use planning and construction conditions need to be modified in light of new policies issued by the government;

4. Where the construction and development of the land cannot be commenced due to complaints lodged by the general public in connection with the land;

5. Where the construction and development of the land cannot be commenced due to military control or protection of historic and cultural relics; and

6. Where other acts of any government or governmental agency cause the delay.

Sale of Commodity Houses

Under the Measures for Administration of Sale of Commodity Houses (商品房銷售管理辦法) (Order of the Ministry of Construction No. 88), promulgated by the Ministry of Construction in April 2001, sale of commodity houses can include both sales before the completion of the properties, or pre-sale, and sales after the completion of the properties.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Buildings in Urban Area (城市商品房預售管理辦法) promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and July 2004, and other related regulations. The pre-sale regulations provide that any pre-sale of commodity properties is subject to specified procedures. According to the current PRC laws and regulations, a pre-sale permit must be in place before a commodity building may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. A commodity building may be sold before completion only if:

- the purchase price has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;

- a construction project planning permit and a construction commencement permit have been properly obtained;

- funds invested in the development of the commodity buildings for pre-sale represent 25 per cent. or more of the total investment in the project and the construction progress as well as the completion and delivery dates have been properly ascertained; and

- a pre-sale permit has been obtained.

The pre-sale proceeds of commodity buildings must be used to develop the relevant project so presold. Commodity buildings may be put to post-completion sale and delivery after they have passed the acceptance examination and otherwise satisfy the various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit a real estate development project manual and other documents relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

On 16 March 2011, the NDRC promulgated the Regulation on Price of Commodity Property (商品房銷售明碼標價規定), which became effective on 1 May 2011. According to the regulation, property developers are required to make public the sale price of each apartment of commodity properties for sale or pre-sale and the number of apartments available for sale or pre-sale within a certain time period. Property developers are also required to state factors that would affect housing prices and relative charges before the property transaction, such as a commission fee and property management fee. No additional charge beyond what is stated in the price tag or made public by the property developers is permitted.

Transfer of Real Estate

According to the PRC laws and the Provisions on Administration of Transfer of Urban Real Estate (城市房地產轉讓管理規定), promulgated by the Ministry of Construction in August 1995, as amended in August 2001, a real estate owner may sell, gift or otherwise legally transfer the property to another natural person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred together. The parties to a transfer must enter into a written real estate transfer contract and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

Where the land use rights are originally obtained by grant, the real property may only be transferred on the condition that:

- the land premium has been paid in full for the granted land use rights as required by the land grant contract and a land use rights certificate has been properly obtained; and

- in the case of a project in which buildings are being developed, development representing more than 25 per cent. of the total investment has been completed; or

- in case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been levelled and made ready for industrial or other construction purposes.

If the land use rights are originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term in the land grant contract. In the event that the assignee intends to change the use of the land provided in the land grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, *inter alia*, change the use of the land and adjust the land premium accordingly.

If the land use rights are originally obtained by allocation, such allocated land use right may be changed to granted land use rights upon approval by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee must complete the formalities for the grant of the land use rights and pay the land premium according to the relevant statutes. Assignment of land for commercial use, tourism, entertainment and commodity housing development must be conducted through public tender, auction or listing-for-sale under the current PRC laws and regulations.

Leases of Buildings

Under the PRC laws and the Measures for Administration of Leases of Commodity House, promulgated by the Ministry of Housing and Urban-rural Construction in December 2010 that became effective in February 2011 (住房和城鄉建設部令第6號《商品房屋租賃管理辦法》), parties to a lease of a building must enter into a lease contract in writing. China has adopted a system to register the leases of real properties. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated.

Mortgages of Real Estate

Under the PRC Urban Real Estate Administration Law, promulgated by the Standing Committee of the National People's Congress in July 1994, as amended in August 2007 and August 2009 (中華人民共和國城市房地產管理法), the PRC Security Law, promulgated by the National People's Congress in June 1995 (中華人民共和國擔保法), and the Measures for Administration of Mortgages of Urban Real Estate, promulgated by the Ministry of Construction in May 1997, as amended in August 2001 (建設部令第98號《城市房地產抵押管理辦法》), when mortgage is created on the ownership of a building legally obtained, such mortgage must be simultaneously created on the land use rights of the land on which the building is situated. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. After a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the real estate in respect of which a property ownership certificate has been legally obtained, the registration authority will, when registering the mortgage, make an entry under "third party rights" on the original property ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity building put to pre-sale or on works in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved will re-register the mortgage of the real property after issue of the certificates evidencing the rights and ownership to the real estate.

The PRC Property Rights Law promulgated in March 2007 that became effective in October 2007 (中華人民共和國物權法) further widens the scope of assets that can be mortgaged, allowing for any asset associated with property rights to be mortgaged as collateral unless a specific prohibition under another law or regulation applies.

According to the Circular on Further Strengthening the Management of Loans for Property Business issued in June 2003 (銀發[2003]121號《中國人民銀行關於進一步加強房地產信貸業務管理的通知》), all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial property mortgage loans:

- Property development loans from banks may only be granted to real estate developers with development qualification and credit ratings in the higher categories. Such loans may be offered to residential projects with good market potential. While the borrowing enterprise's internal capital may not be less than 30 per cent. of the total investment required for the project, the project must have obtained the land use rights certificate, construction land planning permit, construction project planning permit and construction commencement permit.

- In respect of the grant of individual commercial use building mortgage loans, the mortgage ratio for commercial use building mortgage loans may not exceed 60 per cent. with a maximum loan period of 10 years and the subject commercial use building already completed.

The down payment requirement was subsequently increased to 30 per cent. of the property price for residential units with a unit floor area of 90 square metres or more in May 2006. Investors may refer to "*PRC Regulation — Measures on Stabilising Housing Price*" below. The initial capital outlay requirement was subsequently increased to 35 per cent. by CBRC, in August 2004 pursuant to its Guidance on Risk Management of Property Loans Granted by Commercial Banks (銀監發[2004]57號《商業銀行房地產貸款風險管理指引》).

In a Circular on Facilitating the Continuously Healthy Development of Property Market, issued by the State Council in August 2003 (國發[2003]18號《國務院關於促進房地產市場持續健康發展的通知》), a series of measures were adopted by the government to control the property market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity houses and controlling the construction of high-end commodity houses. Besides, the government also staged a series of measures on the lending for residential development, including, among others, improving the loan evaluation and lending process, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans.

In September 2007, PBOC and CBRC promulgated a Circular on Strengthening the Management of Commercial Real-estate Credit Loans with a supplement issued in December 2007 (銀發[2007]359號《中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知》).

The circular aims to tighten the control over real-estate loans from commercial banks to prevent granting excessive credit. The measures include:

- for a first-time home owner, increasing the minimum amount of down payment to 30 per cent. of the purchase price of the underlying property if the underlying property has a unit floor area of 90 square metres or more and the purchaser is buying the property as his/her own residence;

- for a second-time home buyer, increasing (i) the minimum amount of down payment to 40 per cent. of the purchase price of the underlying property and (ii) the minimum mortgage loan;

- interest rate to 110 per cent. of the relevant PBOC benchmark one-year bank lending interest rate. If a member of a family (including the buyer, his/her spouse and their children under 18) has financed the purchase of a residential unit, any member of the family that buys another residential unit with bank loans will be regarded as a second-time home buyer;

- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50 per cent. of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110 per cent. of the relevant PBOC benchmark one-year bank lending interest rate and (iv) limiting the terms of such bank loans to no more than 10 years, although the commercial banks are given certain flexibility based on its risk assessment;

- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45 per cent. of the purchase price of the underlying property, with the other terms to be decided by reference to commercial properties; and

- prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties.

In addition, commercial banks are also banned from providing loans to the projects that have less than 35 per cent. of capital funds (proprietary interests), or fail to obtain land use right certificates, construction land planning permits, construction project planning permits or construction commencement permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real-estate development loans provided by commercial banks should only be used for the projects where the commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

According to the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes, issued by PBOC on 22 October 2008 (銀發[2008]302號《中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》), the minimum amount of down payment has been adjusted to 20 per cent. since 27 October 2008.

In May 2009, the State Council issued the Notice on Adjusting the Proportions of Capital for Fixed Asset Investment Projects (國發[2009]27號《國務院關於調整固定資產投資項目資本金比例的通知》), setting the minimum proportion of capital funds for affordable housing projects and ordinary commodity residential property projects at 20 per cent., and the minimum proportion of capital funds for other property development projects at 30 per cent.

In January 2010, the State Council issued the Circular on Promoting the Stable and Sound Development of the Real Estate Market (國辦發[2010]4號《國務院辦公廳關於促進房地產市場平穩健康發展的通知》), which, among other things, provides that homeowners with outstanding mortgage loans who intend to buy additional housing properties for themselves, their spouses or dependent children are required to pay a down payment of no less than 40 per cent. of the purchase price and the applicable interest rate shall be set strictly based upon the associated risk level.

In April 2010, the State Council issued the Circular on Restraining the Housing Price from Increasing Rapidly for Some Cities (國發[2010]10號《國務院關於堅決遏制部分城市房價過快上漲的通知》), which sets out rules designed to curb the rapid increase in the prices of housing in certain cities, including:

- The differentiation of mortgage financing granted to residential property buyers:
  - a household (including the borrower, his or her spouse and any minor children) that borrows a mortgage loan for the purchase of its first residential property, of which the building area is more than 90 square metres, must make a down payment of not less than 30 per cent. of the purchase price;
  - a household that borrows a mortgage loan for the purchase of its second residential property must make a down payment of not less than 50 per cent. of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate;
  - the down payment proportion and mortgage rate applicable to the purchase of a household's third residential property or beyond shall be significantly increased at the sole discretion of the commercial banks according to their risk controlling principles.
- In regions where commodity housing prices are too high, have increased too rapidly or where commodity housing is in short supply, commercial banks may suspend the grant of mortgage loans to any third-time (or beyond) home buyers if they deem it appropriate according to the risks involved, and may suspend the grant of mortgage loans to any non-local home buyers

who are unable to provide proof of payment of local taxes or social security contributions covering a period of one year or more. Local governments may, based on the circumstances, impose temporary restrictions during a certain period of time on the number of properties that can be purchased.

In January 2011, the General Office of the State Council issued the Notice on Further Improving the Regulation of the Real Estate Market (國辦發[2013]17號《國務院辦公廳關於繼續做好房地產市場調控工作的通知》), under which a household that borrows a mortgage loan for the purchase of a second residential property must make a down payment of not less than 60 per cent. of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate.

REAL ESTATE REGISTRATION

On 24 November 2014, The State Council promulgated a Circular on Interim Regulations on Real Estate Registration (不動產登記暫行條例). According the Circular, a uniform registration system over real estate is implemented. Competent department of land and resources of the State Council shall, in concert with other related departments, establish an uniform basic platform for real estate registration information management.

INSURANCE

There is no mandatory provision under the PRC laws, regulations and government rules which require a property developer to take out insurance policies for its real estate developments. According to the common practise of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

MEASURES ON STABILISING HOUSING PRICE

The General Office of the State Council promulgated a Circular on Stabilising Housing Price in March 2005 (國辦發明電[2005]8號國務院辦公廳關於切實穩定住房價格的通知), introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. In May 2005, the Ministry of Construction, the NDRC, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the State Administration of Taxation and CBRC jointly issued an Opinions on Stabilising Housing Prices (國辦發[2006]37號《國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知》) which contains the following guidance:

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled. The relevant local government authorities are authorised to impose conditions on planning and design such as the building height, plot ratio and green space and to impose such requirements as the selling price, type and GFA as preconditions on land assignment. The local governments are also required to strengthen their supervision of real estate developments in their jurisdictions.

- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high-end housing property construction should be strictly restricted.

- Idle land fee must be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use rights of land that has not been developed for two years must be forfeited without compensation.

- Commencing from 1 June 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the entire sales proceeds from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.

- Ordinary residential houses with medium or small GFA and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio is above 1.0, the GFA of one single unit is less than 120 square metres, and the actual transfer price is lower than 120 per cent. of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.

- Transfer of unfinished commodity properties by any pre-sale purchaser is forbidden. In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filed with the relevant government agencies electronically immediately after its execution.

The Notice on Adjustment of the Housing Loan Policy and Deposit Rate of Excess Reserve for Commercial Banks, promulgated by PBOC in March 2005 (銀發[2005]61號《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》), has made adjustment to individual housing loan policies of commercial banks as well as individual housing fund loan rates. Pursuant to this notice, the preferential mortgage loan interest rate was replaced by the commercial loan interest rate subject to certain restrictions on the lower limit on such interest rates. In the urban areas or cities with rapidly increased real estate prices, minimum down payment ratio for individual housing loans was adjusted from 20 per cent. to 30 per cent. In May 2006, the Ministry of Construction, the NDRC, PBOC and other relevant PRC government authorities jointly issued their Opinions on Housing Supply Structure and Stabilisation of Property Prices (國辦發[2006]37號《國務院辦公廳轉發建設部等部門關於調整住

房供應結構穩定住房價格意見的通知》). Such opinions reiterated the existing measures and ushered additional measures that aim to further curb rapid increases in property prices in large cities and to promote healthy development of the PRC property market. These measures include:

- requiring that at least 70 per cent. of the land supply approved by a local government for residential property development for any given year must be used for developing low- to medium-cost and small- to mid-size units and low-cost rental properties;

- requiring that at least 70 per cent. of residential projects approved or constructed on or after 1 June 2006 must consist of units with a unit floor area of less than 90 square metres per unit and that projects which have received approvals prior to this date but have not obtained construction commencement permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government, such as Beijing, Chongqing and Shanghai, provincial capitals and certain other cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;

- increasing the minimum amount of down payment from 20 per cent. to 30 per cent. of the purchase price of the underlying property if the underlying property has a unit floor area of 90 square metres or more, effective from 1 June 2006;

- prohibiting commercial banks from lending to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35 per cent., restricting the grant or extension of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from accepting commodity properties which have been vacant for more than three years as security for their loans; and

- imposing a business tax levy on the entire sales proceeds from transfer of properties if the holding period is shorter than five years, effective from 1 June 2006, as opposed to two years when such levy was initially implemented in June 2005, and allowing such business tax to be levied on the difference between the price for such resale and the original purchase price in the event that an individual transfers a property other than an ordinary residential property after five years from his/her date of purchase.

In September 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply (國土資發[2007]26號《關於認真貫切〈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》), pursuant to which, together with the revision in December 2010, at least 70 per cent. of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low- to medium-cost and small- to medium-size units, low-cost rental properties and affordable housing.

In July 2008, PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land (Yin Fa (2008) No. 214) (銀發[2008]214號《關於金融促進節約集約用地的通知》), requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

In October 2008, PBOC issued the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes ((銀發[2008]302號《中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》)), pursuant to which, since 27 October 2008, the bottom limit of the interest rate applicable to the commercial personal home loans has been extended, the minimum amount of down payment has been adjusted to 20 per cent. and the interest rate applicable to personal home loans financed by provident fund has also been reduced.

In October 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustments to Taxation on Real Property Transactions (財稅[2008]137號《關於調整房地產交易環節稅收政策的通知》), pursuant to which, together with the revision in September 2010, individuals who sell or purchase residential properties are temporarily exempted from stamp duty and who sell residential properties are temporarily exempted from land value-added tax.

In December 2008, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (Guo Ban Fa (2008) No. 131) (國辦發[2008]131號《國務院辦公廳關於促進房地產市場健康發展的若干意見》), which aims to, among other things, encourage the consumption of the ordinary residence and support the real estate developer to handle the market change. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from 1 January to 31 December 2009, business tax is imposed on the full amount of the sale income upon the transfer of a non-ordinary residence by an individual within two years from the purchase date. For the transfer of a non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favourable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to "low- to medium-level price" or "small- to mid-sized" ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for mergers and acquisitions activities.

In December 2009, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Policy of Business Tax on Re-sale of Personal Residential Properties (財稅[2009]157號《關於調整個人住房轉讓營業稅政策的通知》) as amended in January 2011 and March 2015, which reiterates the measures set forth in the above Several Opinions on Facilitating the Healthy Development of the Real Estate Market regarding the business tax.

In December 2009, the State Council terminated the policy on preferential treatment relating to business taxes payable upon transfers of residential properties by property owners as previously adopted in December 2008 by the PRC government in response to the global economic slowdown, and the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties ((財稅[2009]157號) 《關於調整個人住房轉讓營業稅政策的通知》) as amended in January 2011 and abolished in 31 May 2015 to curtail speculations in the property market in response to the property price increases across the country. Pursuant to the notice, effective from 1 January 2010, business tax will be imposed on the full amount of the sale income upon the transfer of non-ordinary residence by an individual within five years, instead of two years, from the purchase date. For the transfer of non-ordinary residence which is more than five years from the purchase date and ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (Guo Ban Fa (2010) No. 4) (國辦發[2010]4號《關於促進房地產市場平穩健康發展的通知》) which adopted a series of measures to strengthen and improve the regulation of the property market, stabilise market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who have already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down payment of 40 per cent. of the purchase price.

In March 2010, the Ministry of Land and Resources published the Notice on Increasing the Supply of Land for Real Estate Development and the Tightening of Regulation (Guo Tu Zi Fa (2010) No. 34) (國土資發[2010]34號《關於加強房地產用地供應和監管有關問題的通知》). The notice contains 19 rules which provide for the inspection of land supply, law enforcement and regulation, information disclosure and other material issues, including provisions that the minimum land premium payable shall not be less than 70 per cent. of the benchmark price for land of the same grade as that of the lot to be granted and that the competitive bid bond shall not be less than 20 per cent. of the minimum land premium. 50 per cent. of the total land premium must be paid within one month of the signing of the contract as down payment with the remainder to be paid by the time agreed in the contract, but in any event no later than one year after the signing of the contract. If a real estate developer fails to pay the land premium when due or is found to be leaving the land idle, hoarding or speculating on land, or to have undertaken land development beyond its capacity or failed to perform its obligations under the land use contract, the relevant municipal or county administrative authority shall prohibit it from participating in any competitive bidding for land within a certain period of time.

In April 2010, the Ministry of Housing and Urban-Rural Development issued the Notice on Issues Relating to the Further Strengthening of Real Estate Market Regulation and Improvement of the Pre-selling System for Commodity Housing (Jian Fang (2010) No. 53) (建房 [2010]53 號《關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知》) which stipulates that if the pre-sale permit is yet to be received for a commodity housing project, the real estate developer must not receive any form or disguised form of payment from purchasers which is in the nature of earnest money or deposit. Real estate developers are required to disclose, within 10 days of the receipt of the pre-sale permit, all the properties approved for pre-sale and the price of each unit, and to sell the properties at prices which are the same as the prices submitted in the pre-sale proposal.

In April 2010, the State Council issued the Circular on Restraining the Housing Price from Increasing Rapidly for Some Cities (國務院關於堅決遏制部分城市房價過快上漲的通知) (Guo Fa (2010) No. 10) which sets out rules designed to curb the rapid increase in the prices of housing in certain cities, including:

- The differentiation of mortgage financing granted to residential property buyers:

  - a household (including the borrower, his or her spouse and any minor children) that borrows a mortgage loan for the purchase of its first residential property, of which the building area is more than 90 square metres, must make a down payment of not less than 30 per cent. of the purchase price;

  - a household that borrows a mortgage loan for the purchase of its second residential property must make a down payment of not less than 50 per cent. of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate;

- the down payment proportion and mortgage rate applicable to the purchase of a household's third residential property or beyond shall be significantly increased at the sole discretion of the commercial banks according to their risk controlling principles.

- In regions where commodity housing prices are too high, have increased too rapidly or where commodity housing is in short supply, commercial banks may suspend the grant of mortgage loans to any third-time (or beyond) home buyers if they deem it appropriate according to the risks involved, and may suspend the grant of mortgage loans to any non-local home buyers who are unable to provide proof of payment of local taxes or social security contributions covering a period of one year or more. Local governments may, based on the circumstances, impose temporary restrictions during a certain period of time on the number of properties that can be purchased;

- The shareholders of a real estate developer must not, in violation of the regulations, provide the developer with any loan, on-lent loan, security or other facility to support the developer's participation in any competitive bidding for land or its conduct of development and construction work;

- Commercial banks are prohibited from providing loans for new development projects to real estate developers who have been found to be leaving their land idle and speculating on land, and the relevant securities regulatory authorities shall suspend the granting of approval for the listing of or any refinancing or material asset restructuring by such real estate developers; and

- For a real estate development project that has received a pre-sale permit or has completed the recording procedures for the sale of completed properties, all the properties available for sale must be disclosed within the required period of time and sold at prices which are the same as the submitted prices in the pre-sale proposal.

On 26 May 2010, PBOC, the Ministry of Housing and Urban-Rural Development and CBRC jointly issued the Circular on Regulating the Criteria for Identifying the Second Residential Properties in Connection with Individual Commercial Housing Loans (關於規範商業性個人住房貸款中第二套住房認定標準的通知), which aims to implement the State Council Notice on Firmly Preventing Property Price from Increasing Too Rapidly in Certain Cities (Guo Fa (2010) No. 10) and mainly provides, among others, that:

- The number of set of residential properties owned by a resident household who is applying for individual commercial housing loans shall be determined by taking account of the total number of set of residential properties actually owned by the members of the household of the purchaser (including the borrower and his or her spouse and children under the age of 18 years) under their names.

- Upon the application or authorisation of the borrower, the urban real estate administration authorities at the levels of the municipalities directly under the State Council, cities with independent budgetary status, provincial capital cities and other cities that can meet the requirements of inquiry shall, through the property registration information system, check the registration record of the residential properties of the borrower's household and issue a written result of the check.

- Where the result of household residential properties registration inquiry cannot be provided for the reason that the inquiry service is not available locally for the time being, the borrower shall provide the lender with a good faith written warranty on the actual number of set of residential properties owned by his or her household. If the lender proves that such good faith warranty has been breached, it shall record a misconduct for such borrower.

- In the event of occurrence of any of the following circumstances, the differential housing loan policies shall be implemented and applied to any borrower who has one or more residential properties and wants to purchase an additional residential property:

  (i) the borrower submits first time an application for a loan for purchasing a residential property and the real property registration systems (including the pre-sale contract registration system, same below) of the locality where the residential property to be purchased is located show that there exists one or more residential properties already registered for his/her household;

  (ii) the borrower has utilised any of the loans to purchase one or more residential properties and submits an application for a loan for purchasing a residential property; or

  (iii) the lender believes that the borrower has one or more residential properties based on the results of its due diligence (including the borrower's creditworthiness check, face-to-face testing, interviewing with the borrower and when necessary visiting the borrower's residential address).

- The differential housing loan policies shall be implemented and applied to any borrower who is a non-resident of the locality where the residential property to be purchased is located and has failed to provide the evidence proving his payment of local taxes or social security contributions for more than one year; and commercial banks in cities where the price of properties is too high, increasing too rapidly or where properties are in short supply may cease to grant any housing loans to the borrowers of this kind in accordance with the provisions of local government policies.

- Real property registration systems to be generally established in the cities divided into districts by end of year 2010.

On 29 September 2010, by issuing the Notice to Adjust the Preferential Policies on Deed Tax and Individual Income Tax Regarding Real Estate Transaction (關於調整房地產交易環節契稅個人所得稅優惠政策的通知) (Cai Shui 2010 No. 94), the Ministry of Finance decided to levy the deed tax at a reduced rate of 50 per cent. on the ordinary residential property purchased by an individual which is the sole residential property of his or her household (whose members shall include the purchaser and his or her spouse and children under the age of 18 years, the same is applicable below). For an individual who purchases an ordinary residential property which has an area of 90 square metres or less and is the sole residential property of the household, the rate of deed tax shall be reduced to 1 per cent. In addition, for ordinary residential properties purchased by individuals which do not meet the above provisions, the purchaser shall not enjoy the said preferential policies. A taxpayer who sells his or her self-owned residential properties and re-purchases residential properties within one year shall not enjoy the reduction or exemption of the individual income tax.

On 29 September 2010, PBOC and CBRC issued the Circular on Relevant Issues for Improving the Differential Housing Loan Policies (關於完善差別化住房信貸政策有關問題的通知) (Yin Fa (2010) No. 275) in order to further implement the key points reflected in the State Council Notice on Firmly

Preventing Property Price from Increasing Too Rapidly in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知) (Guo Fa (2010) No. 10). This Circular requires that:

- Commercial banks must suspend granting of any housing loan to any household which intends to purchase its third or more residential property and non-local residents who are unable to provide a local tax-payment certificate or social insurance contribution payment certificate for a term of one year or longer.

- For those who use mortgages to purchase residential properties, the minimum down payment was adjusted to a minimum 30 per cent. of the total purchase price of the relevant property; and for a household which uses mortgages to purchase its second residential properties, the policy requiring a minimum 50 per cent. down payment and the mortgage interest rate of at least 1.1 times of the base interest rate was implemented.

- Commercial banks were prohibited to use consumption purpose loans for residential property purchase.

- Commercial banks must cease to grant loans for newly developed projects and renewal of loan terms to real estate developers that have records of violation of laws and regulations as a result of, among other things, rendering the land idle, changing the purpose and nature of land, delaying the construction commencement and completion time and refusing to sell out the properties.

- Commercial banks that do not strictly implement the differential housing loan policies will be stringently punished once proved.

- Loan requests from real estate developers for undertaking the construction projects of low and middle price or small and middle-sized residential properties and participating in social security-purpose residential properties construction projects are encouraged to be granted.

- Financial institutions' support to the social security-purpose residential properties construction projects is encouraged, and policies to support the mid- and long-term loans for the construction of government-sponsored public rental housing projects will be formulated on an urgent basis.

On 30 September 2010, the Ministry of Land and Resources, Ministry of Housing and Urban-Rural Development and Ministry of Supervision jointly issued the Circular on the Further Implementation of Document Guo Fa (2010) No. 10 (關於進一步貫徹落實國發[2010]10號文件的通知) (Jian Fang (2010) No. 155, commonly known as the "**New Five State Provisions**"), which expressly requires the imposition of restriction during a certain period of time on the number of properties which a household of residents is allowed to purchase in cities where the housing prices are too high, increasing too rapidly or where housing is in short supply.

On 19 October 2010, PBOC decided that the base interest rates for Renminbi savings and loans offered by financial institutions were to increase from 20 October 2010. The base interest rate for one-year Renminbi savings will be increased by 0.25 per cent., from 2.25 per cent. to 2.50 per cent.; the base interest rate for one-year loans will be increased by 0.25 per cent., from 5.31 per cent. to 5.56 per cent.; the base interest rate for savings and loans of other terms will be adjusted accordingly.

On 20 October 2010, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (關於調整住房公積金存款利率的通知) (Jian Jin (2010) No. 169), which provides that "1. Beginning from 20 October 2010, the interest rate for individual housing fund contributions carried forward from the previous year will be increased by 0.2

per cent., from 1.71 per cent. at present to 1.91 per cent. The interest rate for individual housing fund contributions received during the year will remain unchanged. 2. Beginning from 20 October 2010, the interest rate for individual housing fund loans will be increased. The interest rate for individual housing fund loans with a term of five years or below and loans with a term of over five years will be increased by 0.17 per cent. and 0.18 per cent., respectively. The interest rate for loans with a term of five years or below will be increased from 3.33 per cent. to 3.50 per cent., while the interest rate for loans with a term of over five years will be increased from 3.87 per cent. to 4.05 per cent. 3. Beginning from 20 October 2010, the lending interest rate in pilot cities for the financing of subsidised housing construction with housing fund will be equivalent to the interest rate for individual housing fund loans with a term of over five years plus 10 per cent., and will be adjusted according to the changes in the individual housing fund lending interest rate''.

Furthermore, since 30 September 2010, many cities have issued measures for the restriction of the number of properties which may be purchased by residents. As at 20 October 2010, a total of 14 cities, namely Beijing, Shanghai, Tianjin, Shenzhen, Guangzhou, Xiamen, Hangzhou, Sanya, Ningbo, Nanjing, Fuzhou, Haikou, Wenzhou and Dalian, had issued measures for restricting the number of properties which may be purchased by residents.

In November 2010, Ministry of Housing and Urban-Rural Development, the Ministry of Finance, the People's Bank of China and the China Regulatory Banking Commission jointly promulgated the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Reserve Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provided that, among other things: (i) where a first-time house purchaser (including the borrower, his/her spouse and minor children) uses housing reserve loans to buy an ordinary house for self-use with a unit floor area: (a) equal to or less than 90 square metres, the minimum down payment shall be at least 20 per cent. or (b) more than 90 square metres, the minimum down payment shall be at least 30 per cent.; (ii) for a second-time house purchaser that uses housing reserve loans, the minimum down payment shall be at least 50 per cent. with the minimum lending interest rate at least 1.1 times the benchmark rate; (iii) a second housing reserve loan will only be available to families whose per capita housing area is below the average in their locality and such loan must only be used to purchase an ordinary house for self-use to improve their residence conditions; and (iv) granting housing reserve loans to families for their third residential property and beyond will be suspended.

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知) (國土資發[2010]204號), which provides, among other things, that: (i) cities and counties that have less than 70 per cent. of their land supply designated for affordable housing, shantytown renovation or small/medium residential units shall not provide land for large-sized and high-end housing before the end of 2010; (ii) land and resource authorities in local cities and counties will report to the Ministry of Land and Resources and provincial land and resource authorities, respectively, regarding land with a premium rate of more than 50 per cent. or the total transaction price or unit price reaches a record high; and (iii) land designated for affordable housing which is used for property development against relevant policies or which involve illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, the notice stipulated that changing the plot ratio of land without approval is strictly prohibited.

The State Council has approved on a trial basis the launch of a property tax scheme in selected cities. On 27 January 2011, each of the local governments of Shanghai and Chongqing issued its respective measures for implementing its pilot property tax schemes.

On 9 February 2011, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (關於調整住房公積金存貸款利率的通知) (建金[2011]15號), which provides that, beginning from 9 February 2011, (i) the interest rate for individual housing fund contributions carried forward from the previous year will be increased by 0.35 per cent. from 2.25 per cent. to 2.6 per cent. and (ii) (a) the interest rate for individual housing fund loans with a term of five years or less and with a term of more than five years will be increased by 0.25 per cent. and 0.2 per cent., respectively., and (b) the interest rate for loans with a term of five years or less and with a term of more than five years will be increased from 3.75 per cent. to 4 per cent. and from 4.3 per cent. to 4.5 per cent., respectively.

On 6 April 2011, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (Jian Jin (2011) No. 44) (關於調整住房公積金存貸款利率的通知) (建金[2011]44號), which provides that, beginning from 6 April 2011, (i) the interest rate for individual housing fund contributions carried forward from the previous year will be increased by 0.25 per cent. from 2.6 per cent. to 2.85 per cent., (ii) (a) the interest rate for individual housing fund loans with a term of five years or less and with a term of more than five years will be increased by 0.2 per cent. and 0.2 per cent., respectively, and (b) the interest rate for loans with a term of five years or less and with a term of more than five years will be increased from 4 per cent. to 4.2 per cent. and from 4.5 per cent. to 4.7 per cent., respectively, and (iii) the lending interest rate in pilot cities for the financing of subsidised housing construction with housing funds will be equivalent to the interest rate for individual housing fund loans with a term of more than five years plus 10 per cent.

On 6 July 2011, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (Jian Jin (2011) No. 94) (關於調整住房公積金存貸款利率的通知) (建金[2011]94號), which provides that, beginning from 7 July 2011, (i) the interest rate for individual housing fund contributions carried forward from the previous year of 2010 would be increased by 0.25 per cent. from 2.85 per cent. to 3.1 per cent. while the interest rate for individual housing fund contributions received during the year of 2011 would remain unchanged, (ii) the interest rate for individual housing fund loans with a term of five years or less and with a term of more than five years will be increased by 0.25 per cent. and 0.2 per cent., respectively, and the interest rate for loans with a term of five years or less and with a term of more than five years will be increased from 4.2 per cent. to 4.45 per cent. and from 4.7 per cent. to 4.9 per cent., respectively, and (iii) the lending interest rate in pilot cities for the financing of subsidised housing construction with housing funds will be equivalent to the interest rate for individual housing fund loans with a term of more than five years plus 10 per cent.

On 19 July 2012, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development issued the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of the Real Property Market (國土資源部、住房城鄉建設部關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知 (國土資電發[2012]87號)). According to this Notice, the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development and their respective local counterparts will continue to strictly regulate the market to prevent housing prices from rebounding. Local governments must ensure adequate supply of land for social security housing projects, and must try to increase the completion rate of such projects. Further, the governments will further improve the land price evaluation procedure, thereby allowing for the reasonable determination of base prices for land auction. For those auctions in which the land prices may be raised to a significantly higher level, the governments must adjust the bidding method in a timely manner. For those lands which are expected to reach unprecedentedly high prices and those lands whose final prices represent a premium of more than 50 per cent. to the base price the government should adjust the land transfer scheme in a timely manner, such as by limiting the final home prices or requiring the land purchaser to build additional social security housing projects. Further, the government will continue enforcing the system for reporting unusual transactions, which requires that governments at city-level and county-level should, within two business days upon the signing of purchase confirmation letter or the dispatch of the letter of acceptance, submit the unusual transaction data to the national land market monitoring and administration system, thereby reporting the unusual transaction to the Ministry of Land and Resources and its agencies at the provincial level.

Additionally under this notice, the government emphasises that the land to be transferred should not exceed its upper limit of area, and some other acts will continue to be strictly prohibited, such as combining two or more separate tracts of land into one bidding subject, or transferring land without first completing the demolition and relocation work. The floor-area ratio of residential land should be no less than 1. Further, land allocation decision or land transfer contract should require real estate developer to commence the construction and development within one year after the land has been delivered to it and to complete the construction and development within three years. The government will strictly inspect the competence of bidders and prohibit any bank loan from being used for the payment of land price. The deposit for land auction or bidding should not be less than 20 per cent. of the base price. After the deal of land transfer has been reached, the land transfer agreement should be signed within 10 business days, 50 per cent. of the land premium should be paid within one month after the signing of the land transfer agreement and the payment of remaining land premium should be made within one year. Also, the government should prohibit the purchaser from purchasing land for a certain period if such a purchaser (a) failed to pay the land premium, in a timely manner; (b) intentionally left the land idle; (c) intentionally reserved land for the purpose of resale; (d) developed land beyond its development capability; or (e) failed to duly perform the land use contract.

On 5 November 2012, the Ministry of Land and Resources, the Ministry of Finance, PBOC and CBRC jointly promulgated the Notice on Strengthening Land Reserves and Financing Administration (Guotuzi Fa [2012] No. 162) (《關於加強土地儲備與融資管理的通知》(國土資發[2012]162號)) in order to strengthen land bank institutions administration, determine the reasonable scale and structure of land bank, strengthen the administration of land pre-development, reservation and protection, and regulate the financing to land reservation and the use of land reservation funds.

On 26 February 2013, the General Office of the State Council issued the Notice on Continuing to Effectively Regulate the Real Estate Market (繼續做好房地產市場調控工作的通知) (國辦發[2013]17號), requiring certain related cities to fine-tune the existing house purchase restrictions on the basis of strict compliance with the Notice of the General Office of the State Council on Further Improving the Macroeconomic Control of the Real Property Market (Guo Ban Fa [2011] No. 1) (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(國辦發[2011]1號)), which includes, among others: (i) all administrative regions of a city subject to purchase restrictions shall be covered under such restrictions, while the types of houses subject to purchase restrictions shall include all newly-constructed commercial 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; (ii) with regard to cities with soaring housing prices, the local branches of the PBOC may further raise the percentage of the minimum down payment (which shall not be lower than 60 per cent.) and loan interest rates which shall not be lower than 1.1 times of the benchmark interest rate for the second-home purchases, according to policy requirements and the price control targets determined by the local people's governments for newly-constructed commercial housing; and (iii) tax authorities shall levy individual income tax payable on the sales of owner-occupied houses at 20 per cent. of the transfer gain 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 administration and house registration.

On 29 September, 2014, PBOC and CBRC issued the Circular of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Financial Services for Housing Consumption (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 on loan its first ordinary residential property for self-use, the minimum percentage of down payment is 30 per cent., and the lower limit of loan interest rate is 70 per cent. 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 again to buy on loan 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 on 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 urbanisation, grant housing loans to non-local residents who meet policy requirements.

On 30 March 2015, PBOC, the Ministry of Housing and Urban-rural Development and CBRC jointly issued the Notice on Issues concerning Individual Housing Loan Policies (關於個人住房貸款政策有關問題的通知), for a resident who owns one house of which relevant housing loan has not been settled, and applies for a commercial individual housing loan for purchasing an ordinary home for the purpose of improving its living conditions, the minimum down payment ratio is adjusted to not less than 40 per cent.; for a worker who pays housing provident fund to purchase the first ordinary with housing provident fund commission loan, the minimum down payment ratio is 20 per cent.; and for a worker who owns one home of which relevant housing loan has been settled and applies for a housing provident fund commission loan for purchasing an ordinary home for the purpose of improving its living conditions, the minimum down payment ratio is 30 per cent.

On 30 March 2015, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (關於調整個人住房轉讓營業稅政策的通知)(財稅[2015]39號), under which business tax is imposed on (i) the full amount of the transfer price upon the transfer of any residential property by an individual owner within two years from such individual owner's purchase of such property and (ii) the difference between the transfer price and the original purchase price upon the transfer of any non-ordinary residential property by an individual owner more than two years from such individual owner's purchase. Business tax is exempted for ordinary residential properties if the transfer occurs after two years from the individual owner's purchase of such property. This notice became effective on 31 March 2015.

OTHER PRC REGULATIONS

Overseas Listing

In August 2006, the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration of Industry and Commerce, the China Securities Regulatory Commission, and SAFE jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) which became effective on 8 September 2006 and was amended on 22 June 2009, or the New M&A Rule. This New M&A Rule requires, among other things, that offshore special purpose vehicles, formed for overseas listing purposes through acquisitions of PRC domestic companies controlled by PRC companies or individuals, obtain the approval of the China Securities Regulatory Commission prior to publicly listing their securities on an overseas stock exchange. In September 2006, China Securities Regulatory Commission published a notice on its official website specifying documents and materials required to be submitted to it by special purpose vehicles seeking China Securities Regulatory Commission approval of their overseas listings.

Environmental Protection

The laws and regulations governing the environmental protection requirements for real estate development in China include the PRC Environmental Protection Law, the PRC Prevention and Control of Noise Pollution Law, the PRC Environmental Impact Assessment Law and the PRC Administrative Regulations on Environmental Protection for Development Projects. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact assessment document or an environmental impact registration form must be submitted by a developer before the relevant authorities grant approval for the commencement of construction of the 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 protection standards and regulations before the property can be delivered to the purchasers.

Foreign Exchange Controls

Under the PRC Foreign Currency Administration Rules, promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the rules and regulations of the State.

In October 2005, SAFE issued a Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies ("**Circular No. 75**") (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題通知) (匯發[2005]75號). According to the Circular No. 75, a special purpose company refers to an offshore company established or indirectly controlled by PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of a special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The Circular No. 75 applies retroactively. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (i) the PRC residents have completed the injection of equity investment or assets of a domestic company into the special purpose company; (ii) the overseas funding of the special purpose company has been completed; and (iii) there is a material change in the capital of the special purpose company. Under the rules, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators to penalties under the PRC foreign exchange administration regulations.

In July 2014, SAFE issued 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) (匯發[2014]37號), which is called SAFE Circular No.37, and its implement guidelines, which abolishes and supersedes aforesaid Circular No. 75 and its related implementation rules and guidelines. Pursuant to the Circular No. 37 and its implementation guidelines, PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas SPV directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registration with SAFE when there is a significant change to the SPV, such as changes of the PRC individual resident's increase or decrease of its capital contribution in the SPY, or any share transfer or exchange, merger, division of the SPY. Failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

In 29 August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (匯綜發[2008]142 號) ("**Circular No. 142**"). Pursuant to Circular No. 142, a foreign-invested enterprise's Renminbi fund received from the settlement of its foreign currency capital must be used within the business scope as approved by the government authority that approved the establishment of such foreign-invested enterprise, and such Renminbi fund cannot be used for domestic equity investment unless it is otherwise provided for.

Effective from 1 June, 2015, the aforesaid Circular No. 142 is repealed by the Circular of SAFE on the Reform of Administrative Approach for the Settlement of Foreign Exchange Capital Funds of Foreign-invested Enterprises (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) ("**Circular No. 19**"), or, issued by SAFE in March 2015, which stipulates that the voluntary settlement of foreign exchange capital funds for foreign invested enterprises will be implemented which means that, the foreign exchange capital funds in a foreign invested enterprise's capital account, which have been recognised by the local foreign exchange bureau as the interests of capital contributions or registered with the relevant bank, can be settled in banks according to such enterprise's actual business operation requirements. The provisional percentage for the voluntary settlement of foreign exchange capital funds for foreign invested enterprises is 100. SAFE may adjust the aforesaid percentage in due time according to the situation of the balance in international payments. Furthermore, Circular No. 19 facilitates domestic equity investments by foreign invested enterprises with funds from the settlement of foreign exchange capital.

MAINLAND CHINA TAXATION

Because the Issuer and the Guarantor are not incorporated in Mainland China, investment in the Notes is largely exempt from PRC tax laws, except as disclosed in the section entitled "*Risk Factors — Risks Relating to the PRC — The Guarantor may be deemed a PRC resident enterprise under the new PRC Corporate Income Tax ("CIT") Law, which may subject it to the PRC taxation on its worldwide income. In addition, if the Issuer is deemed as a PRC resident enterprise, it would be required to withhold taxes on interest it pays on the Notes and the investors of the Notes would be required to pay taxes on gains realised from the sale of the Notes*". But because a substantial part of the Guarantor's business operations are in Mainland China and it carries out these business operations through operating subsidiaries and joint ventures organised under the PRC law, its PRC operations and its operating subsidiaries and joint ventures in Mainland China are subject to PRC tax laws and regulations, which indirectly affect an investor's investment in the Notes. For information on taxation of a holder of Notes in other jurisdictions, see "*Taxation*".

DIVIDENDS FROM THE GROUP'S PRC OPERATIONS

Pursuant to the PRC CIT Law and its implementation rules that became effective on 1 January 2008, dividends payable by foreign invested enterprises, such as subsidiaries and joint ventures in China, to their foreign investors are subject to a withholding tax at a rate of 10 per cent. unless any lower treaty rate is applicable.

Under the CIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose "de facto management body" is located in China are treated as "resident enterprises" for PRC tax purposes and will be subject to PRC CIT on their worldwide income. For such PRC tax purposes, dividends from PRC subsidiaries to their foreign shareholders are excluded from such taxable worldwide income. Under the implementation rules of the CIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

The Group's Operations in Mainland China

The Guarantor's subsidiaries and joint ventures through which it conducts the Group's business operations in Mainland China are subject to PRC tax laws and regulations.

Deed Tax

Under the PRC Interim Regulation on Deed Tax, a deed tax is chargeable to transferees of land use rights or ownership in real properties within the territory of Mainland China. These taxable transfers include:

- grant of use right of state-owned land;
- sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and
- sale, gift and exchange of real properties.

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

Corporate Income Tax

Under the CIT Law, effective from 1 January 2008, a unified CIT rate is set at 25 per cent. for both domestic enterprises and foreign-invested enterprises. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10 per cent. unless any lower treaty rate is applicable. However, under the tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose "de facto management body" is located in China are treated as "resident enterprises" for PRC tax purposes and will be subject to PRC CIT on their worldwide income. Dividends from PRC subsidiaries to their foreign shareholders are excluded from such taxable worldwide income. Under the implementation rules of the CIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

On 6 March 2009, the State Administration of Taxation issued the Notice on the Measures for the Treatment of Enterprise Income Tax on Real Estate Development and Operation Businesses (房地產開發經營業務企業所得稅處理辦法), regulating the revenue, cost of sales, fees deduction, accounting of costs and tax treatment of specific matters of enterprises engaging in the real property business in the PRC, in relation to the imposition of CIT.

Land Appreciation Tax (the "LAT")

Under the PRC Interim Regulation on Land Appreciation Tax of 1994, which was amended in January 2011, and its implementation rules of 1995, LAT applies to both domestic and foreign investors in real properties in Mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the "deductible items" that include the following:

- payments made to acquire land use rights;
- costs and charges incurred in connection with the land development;
- construction costs and charges in the case of newly constructed buildings and facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of the land use rights, buildings or other facilities on such land; and
- other items allowed by the Ministry of Finance.

The tax rate is progressive and ranges from 30 per cent. to 60 per cent. of the appreciation value as compared to the "deductible items" as follows:

Appreciation value	**LAT rate**
	(per cent.)
Portion not exceeding 50 per cent. of deductible items	30
Portion over 50 per cent. but not more than 100 per cent. of deductible	40
Portion over 100 per cent. but not more than 200 per cent. of deductible	50
Portion over 200 per cent. of deductible items	60

Exemption from LAT is available to the following cases:

- taxpayers constructing ordinary residential properties for sale (i.e. the residences built in accordance with the local standard for residential properties used by the general population, excluding deluxe apartments, villas, resorts and other high-end premises) where the appreciation amount does not exceed 20 per cent. of the sum of deductible items;

- real estate taken over and repossessed according to laws due to the construction requirements of the state; and

- due to redeployment of work or improvement of living standards, transfers by individuals of originally self-used residential properties, with five years or longer of self-used residence and with tax authorities' approval.

According to a notice issued by the Ministry of Finance in January 1995, the LAT regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts executed before 1 January 1994; and

- first time transfers of land use rights or premises and buildings during the five years commencing on 1 January 1994 if the land grant contracts were executed or the development projects were approved before 1 January 1994 and the capital has been injected for the development in compliance with the relevant regulations.

After the enactment of the LAT regulations and the implementation rules in 1995, respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership certificates.

The State Administration of Taxation issued a further notice in July 2002 to require local tax authorities to require prepayment of LAT on the basis of proceeds from pre-sale of real estate.

In December 2006, the State Administration of Taxation issued a Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprise (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(國稅發[2006]187號)), which came into effect on 1

February 2007 and was amended on 15 June 2018. The notice required settlement of LAT liabilities by real estate developers. Provincial tax authorities are given authority to formulate their implementation rules according to the notice and their local situation.

To further strengthen LAT collection, in May 2009, the State Administration of Taxation released the Rules on the Administration of the Settlement of Land Appreciation Tax, which came into force in 1 June 2009.

On 19 May 2010, the State Administration of Taxation promulgated the Notice on Issues Regarding Land Appreciation Tax Settlement (關於土地增值稅清算有關問題的通知) (國稅函[2010]220號), which provides further clarifications and guidelines on LAT settlement, revenue recognition, deductible expenses, timing of assessment and other related issues.

On 25 May 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection of Land Appreciation Tax (關於加強土地增值稅徵管工作的通知) (國稅發[2010]53號), which provides for a minimum LAT prepayment rate at 2 per cent. for provinces in eastern China region, 1.5 per cent. for provinces in the central and north eastern China regions, and 1 per cent. for provinces in the western China region. The notice also delegate to the local tax authorities the authority to determine the applicable LAT prepayment rates based on the types of the properties in their respective regions.

On 20 June 2013, the State Administration of Taxation issued the Notice on Further Improving the Collection and Administration of Value-Added Tax on Land (關於進一步做好土地增值稅徵管工作的通知) (稅總發[2013]67號), according to which, the State Administration of Taxation will continue to strengthen the administration over the Value-added Tax on Land inquisition, strict examination of deductible items, reducing the assessment and collection items and other aspects.

Urban Land Use Tax

Pursuant to the PRC Interim Regulations on Land Use Tax in respect of Urban Land, promulgated by the State Council in September 1988, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax rate on urban land was between RMB0.2 and RMB10 per square metre. The amendments by the State Council in December 2006 and December 2015 changed the annual tax rate to between RMB0.6 and RMB30 per square metre of urban land. Foreign-invested enterprises are no longer exempt from the land use tax.

Buildings Tax

Under the PRC Interim Regulations on Buildings Tax, promulgated by the State Council in September 1986, buildings tax applicable to domestic enterprises is 1.2 per cent. if it is calculated on the basis of the residual value of a building and 12 per cent. if it is calculated on the basis of the rental. On 27 January 2011, the governments of Shanghai and Chongqing respectively issued measures for implementing pilot individual property tax schemes, which became effective on 28 January 2011.

And according to the Notice on Issues Relating to Assessment of Buildings Tax against Foreign-invested Enterprises and Foreign Individuals, the foreign-invested enterprises, foreign enterprises and foreign individuals are to be levied the same as domestic enterprises.

Stamp Duty

Under the PRC Interim Regulations on Stamp Duty, promulgated by the State Council in August 1988, for property transfer instruments, including those in respect of property ownership transfers, the duty rate is 0.05 per cent. of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land use rights certificates, stamp duty is levied on an item-by-item basis of RMB5 per item.

Municipal Maintenance Tax

Under the PRC Interim Regulations on Municipal Maintenance Tax, promulgated by the State Council in 1985 and revised in 2011, taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax are required to pay municipal maintenance tax calculated on the basis of product tax, value-added tax and business tax. The tax rate is 7 per cent. for a taxpayer whose domicile is in an urban area, 5 per cent. for a taxpayer whose domicile is in a county or a town, and 1 per cent. for a taxpayer whose domicile is not in any urban area or county or town. According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知) issued by the State Council on 18 October 2010, the municipal maintenance tax is applicable to foreign invested enterprises, foreign enterprises and foreign individuals with effect from 1 December 2010.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge, promulgated by the State Council in April 1986 and amended in 1990 and in August 2005, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas. The Education Surcharge rate is 3 per cent. calculated on the basis of consumption tax, value-added tax and business tax. According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知) issued by the State Council on 18 October 2010, the education surcharge is applicable to foreign invested enterprises, foreign enterprises and foreign individuals with effect from 1 December 2010.

On 23 March 2016, the MOF and the State Administration of Taxation issued the Circular 36, which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as giving loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Although the issuance of the Securities is likely to be treated as financial services for VAT purposes, Circular 36 stipulates that services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. In connection with the issue of the Securities, none of the Issuer or the Holders is located in the PRC. There is no assurance that the issuance of the Securities will not be treated as financial services for VAT purpose. If the issuance of Securities is treated as financing services within the PRC by the relevant tax authorities, the Holders of the Securities shall be subject to VAT at the rate of 6.00 per cent. when receiving interest payments under the Securities. In addition, the holders of the Securities shall be subject to the local levies. Given that the Issuer or the Guarantor (if the Guarantor is required to discharge its obligations on the Guarantee of the Securities) pays interest income to Holders who are located outside of the PRC, the Issuer or the Guarantor acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Holders who are located outside of the PRC.

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

The members of the board of directors (the "**Board**") of the Guarantor as at the date of this Offering Circular are as follows:

Name	Title
Executive Directors	
Mr. Yan Jianguo	Executive Director, Chairman and Chief Executive Officer
Mr. Luo Liang	Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect
Mr. Guo Guanghui	Executive Director and Vice President
Non-Executive Director	
Mr. Chang Ying	Non-Executive Director
Independent Non-Executive Directors	
Mr. Lam Kwong Siu	Independent Non-Executive Director
Dr. Fan Hsu Lai Tai, Rita.	Independent Non-Executive Director
Mr. Li Man Bun, Brian David.	Independent Non-Executive Director

The biographies of the Executive and Non-Executive Directors of the Guarantor as at the date of this Offering Circular are as follows:

Executive Directors and Management

Mr. YAN Jianguo
Chairman, Executive Director and Chief Executive Officer

Aged 52, graduated from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) majoring in Industrial and Civil Construction in 1989 and obtained an MBA degree from Guanghua School of Management in Peking University in 2000 and a PhD degree in Marketing from Wuhan University in 2017. Mr. Yan joined China State Construction Engineering Corporation in 1989 and had been seconded to the Guarantor twice. During the year 1990 to 1992, he had been working for the Shenzhen Branch of China Overseas Property Group and had held a number of positions, including site engineer and department head. He was assigned to the Guarantor again from 2001 to 2011 and had been Assistant General Manager of Guangzhou Branch, Deputy General Manager of Shanghai Branch, General Manager of Suzhou Branch, General Manager of Shanghai Branch, Vice Managing Director of China Overseas Property Group and President of Northern China Region. Mr. Yan had worked in China State Construction Engineering Corporation from 2011 to June 2014 and had been Director of the General Office, General Manager of Information Management Department, Chief Information Officer and Assistant General Manager. Mr. Yan joined Longfor Properties Co. Ltd. in June 2014 and resigned on 5 December 2016. During the period, he had held a number of positions including Executive Director and the Senior Vice President. Mr. Yan was appointed Executive Director and Chief Executive Officer of the Guarantor from 1 January 2017 and has become Chairman of the Guarantor and continues to serve as Chief Executive Officer of the Guarantor from 13 June 2017. Besides acting as the Executive Director, Chairman and Chief Executive Officer of the Guarantor, Mr. Yan is currently Vice Chairman and President of China Overseas Holdings Limited and a director of certain of its subsidiaries, the Chairman and Non-Executive Director of China Overseas Property Holdings Limited and COGO, and also a director of the subsidiaries of the Guarantor. Mr. Yan has also been appointed as Chairman and Non-Executive Director of China State Construction International Holdings Limited on 22 March

2019. China Overseas Holdings Limited is the substantial shareholder of the Guarantor within the meaning of the SFO. He has about 29 years' experience in construction business, real estate investment and management.

Mr. LUO Liang
Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect

Aged 55, graduated from Huazhong University of Science and Technology, holder of a master's degree, and a Professor Level Senior Architect. He joined the Group in 1999. Mr. Luo has been appointed as the Chief Architect of the Group and one of its subsidiaries from 18 October 2002 and 2 February 2018 respectively, the Executive Director of the Guarantor from 22 March 2007, the Vice President of the Guarantor in August 2009 and the Executive Vice President and Chief Operating Officer of the Guarantor from 26 May 2017. Besides acting as the Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect of the Guarantor, Mr. Luo is currently a director of certain subsidiaries of the Group. Mr. Luo has about 30 years' architectural experience.

Mr. GUO Guanghui
Executive Director and Vice President

Aged 46, graduated from Nanjing University of Science & Technology, holder of a master's degree, and is a senior accountant and a non-practising member of The Chinese Institute of Certified Public Accountants. He joined the Guarantor and its subsidiaries in 2006 and is currently the Vice President of the Guarantor and a director of certain subsidiaries of the Group. Mr. Guo has about 24 years' management experience in corporate finance and accounting. He was appointed an Executive Director of the Guarantor with effect from 12 June 2018.

Non-Executive Director

Mr. CHANG Ying
Non-Executive Director

Aged 46, holds a master's degree from the University of New South Wales in Australia and a master's degree from Southeast University in the PRC. Mr. Chang was appointed as a Non-Executive Director of the Guarantor from 15 September 2016. He joined CITIC Real Estate Co., Ltd. in April 2006 and was Executive Vice President of CITIC Real Estate Co., Ltd. and Managing Director and Chief Executive Officer of CITIC Real Estate (Beijing) Investment Co., Ltd., the Deputy General Manager of Strategic Development Department of CITIC Limited before 31 December 2017. He is currently the vice chairman of CITIC Urban Development & Operation Co., Ltd. Mr. Chang has about 19 years' extensive experience in real estate and investment industry.

Independent Non-Executive Directors

Mr. LAM Kwong Siu
SBS and GBS
Independent Non-Executive Director,
Chairman of the Remuneration Committee,
Member of the Audit and Risk Management Committee,
Member of the Nomination Committee

Aged 85, joined the Board of the Guarantor as an Independent Non-Executive Director on 30 September 2003 and has served the Guarantor for about 15 years. Mr. Lam is also a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee of the Guarantor and has been appointed as Chairman of the Remuneration Committee of the Guarantor on 3 August 2015. He was the Delegate of the Tenth National People's Congress. He is the Vice Chairman of BOC International Holdings Limited, the Honorary Chairman of Hong Kong Federation of Fujian Associations, the Life Honorary Chairman of Hong Kong Fukien Chamber of Commerce, the Vice Chairman of Fujian Hong Kong Economic Cooperation, the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Adviser of the Hong Kong Chinese Enterprises Association, the Honorary President of the Chinese Bankers Club of Hong Kong and the Non-Executive Director of Bank of China International Limited. Mr. Lam is also an Independent Non-Executive Director of Fujian Holdings Limited, Xinyi Glass Holdings Limited, Yuzhou Properties Company Limited, Far East Consortium International Limited and Vico International Holdings Limited. Mr. Lam has over 55 years' continuous banking and finance experience.

Dr. FAN HSU Lai Tai, Rita
GBM, GBS, JP
Independent Non-Executive Director,
Chairman of the Nomination Committee,
Member of the Audit and Risk Management Committee,
Member of the Remuneration Committee

Aged 73, joined the Board of the Guarantor as an Independent Non-Executive Director on 2 February 2009 and has served the Guarantor for more than 9 years. Dr. Fan is also a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee of the Guarantor and has been appointed as Chairman of the Nomination Committee of the Guarantor on 2 February 2009. She is one of Hong Kong's best-known public figures and has an outstanding track record of service to the community. Dr. Fan was appointed to the Legislative Council from 1983 to 1992 and was a Member of the Executive Council from 1989 to 1992. She became the President of the Provisional Legislative Council in 1997, and has since been re-elected as the President of the First, Second and Third Legislative Council. Her term of office ended on 30 September 2008. Dr. Fan has served as President of the legislature of Hong Kong for 11 years.

In the lead-up to Hong Kong's reunification with China, Dr. Fan played a valuable role as a Member of the Preliminary Working Committee for the Preparatory Committee for Hong Kong from 1993 to 1995 and of the Preparatory Committee for Hong Kong from 1995 to 1997. She was elected as a Hong Kong Deputy for the Ninth to Twelfth sessions of the National People's Congress ("**NPC**") during 1998 to 2018, and served as a Member of the Eleventh and Twelfth sessions of the Standing Committee of the NPC from 2008 to 2018. Dr. Fan was elected the Chairman of the council of Endeavour Education Centre Limited from March 2016.

After graduating from St. Stephen's Girls' College, Dr. Fan studied at the University of Hong Kong, and was awarded a bachelor's degree in Science, and later on, received a master's degree in Social Science. She also received the Honorary Doctorate in Social Science from the University of Hong Kong, the City University of Hong Kong, the Hong Kong Polytechnic University, and the Education University of Hong Kong respectively, and an Honorary Doctorate in Law from the China University of Political Science and Law of the People's Republic of China. Her record of public service has been acknowledged by the Hong Kong Government through the award of the Gold Bauhinia Star in 1998 and Hong Kong's top award, the Grand Bauhinia Medal, in 2007.

She is also an Independent Non-Executive Director, a Member of the Audit Committee, the Nomination Committee and the Chairman of the Remuneration Committee of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited); and an Independent Non-Executive Director and the Chairman of the Remuneration Committee of The Bank of East Asia, Limited.

She served as an Independent Non-Executive Director, a Member of the Nomination Committee, the Audit Committee and the Chairman of the Remuneration Committee of China Shenhua Energy Company Limited; and an Independent Non-Executive Director, a Member of the Nomination Committee and the Chairman of the Remuneration Committee of COSCO SHIPPING Holdings Co., Ltd.# (formerly known as China COSCO Holdings Company Limited).

English translation is for identification purpose only

Mr. LI Man Bun, Brian David
JP, MA (Cantab), MBA, FCA
Independent Non-Executive Director,
Chairman of the Audit and Risk Management Committee,
Member of the Nomination Committee,
Member of the Remuneration Committee

Aged 44, Mr. Li joined the Board as an Independent Non-Executive Director of the Guarantor on 19 March 2013 and was appointed Chairman and Member of the Audit and Risk Management Committee, Member of the Nomination Committee and Member of the Remuneration Committee on the same day. Mr. Li is Co-Chief Executive of The Bank of East Asia, Limited ("**BEA**"), responsible for the overall management and control of BEA with a particular focus on its China and international businesses. Mr. Li joined BEA in 2002 and served as General Manager & Head of Wealth Management Division from July 2004 to March 2009. Mr. Li was subsequently appointed Deputy Chief Executive in April 2009, Executive Director in August 2014, and Co-Chief Executive of BEA in July 2019.

Mr. Li is currently an Independent Non-Executive Director and Chairman of the Board Audit and Risk Committee of Towngas China Company Limited, and an Independent Non-Executive Director and Chairman of the Remuneration Committee of Shenzhen Investment Holdings Bay Area Development Company Limited (formerly known as Hopewell Highway Infrastructure Limited).

Mr. Li holds a number of public and honorary positions, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Chief Executive's Council of Advisers on Innovation & Strategic Development of the Government of the Hong Kong Special Administrative Region, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council, and a member of the Aviation Development and Three-runway System Advisory Committee.

He is a member of the Hong Kong-Europe Business Council and a member of the Hongkong-Japan Business Co-operation Committee. He is also a Vice Chairman of the Asian Financial Cooperation Association and a member of the Financial Consulting Committee for the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen.

Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He is also a Full Member of the Treasury Markets Association. Mr. Li holds an MBA degree from Stanford University and a BA degree from the University of Cambridge.

CORPORATE GOVERNANCE

General

The Board of the Guarantor recognizes good corporate governance is essential to attaining long-term and sustainable growth of the business and is committed to high standard of corporate governance. The Group strives to achieve this commitment by adopting accountability and transparency as the cornerstone of the Guarantor's corporate governance framework.

The Board of Directors

Management Functions

The Board of the Guarantor is responsible for managing the Guarantor. Having regard to the best interests of the Guarantor and its shareholders, the Board of the Guarantor reviews and approves major matters such as the Guarantor's business strategies, budgets, major investments as well as mergers and acquisitions. The Board of the Guarantor established the Executive Committee on 23 August 2018 and delegates its responsibilities of day-to-day operations of the business to the Executive Committee. In addition, the directors of the Guarantor have acknowledged that the principal responsibilities of the Board of the Guarantor include supervising and administrating the operation and financial position of the Guarantor, enhancing corporate governance practices and promoting the communication with its shareholders.

Chairman and CEO

Mr. Yan Jianguo ("**Mr. Yan**") has become the Chairman and the Chief Executive Officer of the Guarantor since 13 June 2017.

The Board of the Guarantor considers that vesting both roles in one individual would result in more consistent leadership of the Group. Also, taking into account Mr. Yan's experience and knowledge in property development and commercial property management, the Board of the Guarantor is confident that Mr. Yan will assist the Group in formulating comprehensive, competitive, long-term and substantial business strategies and plans and implementing them accordingly.

In respect of the checks and balances on Mr. Yan's power and authority, the Board of the Guarantor considers that different duties and roles of the Chairman and the Chief Executive Officer of the Guarantor have been clearly defined since June 2007. Also, the Board of the Guarantor, which comprises experienced and high calibre individuals together with the check-and-balance mechanism of the Guarantor, can monitor the exercising of power and authority by Mr. Yan. In any event, the Board of the Guarantor will review this arrangement from time to time and will consider the appropriate adjustment if suitable circumstances arise.

Risk Management and Internal Controls

The Board of the Guarantor is responsible for overseeing the risk management and internal control systems and reviewing their effectiveness. The Board of the Guarantor is also responsible for evaluating and determining the nature and extent of the risks that the Guarantor is willing to take when achieving the Guarantor's business objectives, and supervising the management to establish and maintain appropriate and effective risk management and internal control systems. The management is responsible for establishing and maintaining appropriate and effective risk management and internal control systems, and providing the Board of the Guarantor with confirmation of the effectiveness of these systems.

The Board of the Guarantor has implemented effective risk management and internal control systems and procedures to safeguard the Guarantor's assets and the interests of shareholders, to ensure that reliable financial information will be provided to management and for the purpose of publication and to ensure that significant investments and business risks affecting the Guarantor can be identified and properly managed. However, risk management and internal control systems are designed to manage, rather than eliminate, the risk of failing to achieve business objectives and control the risk of failure of the Guarantor's operating systems, and it can only provide reasonable, but not absolute, assurance against misrepresentation or loss.

Risk Management

The Guarantor has established a sound risk management framework. The Board of the Guarantor, the Audit and Risk Management Committee, the Management Level Risk Management Committee, the Risk Management Taskforce and business line, together with the Intendance and Audit Department, form the risk management system of the Guarantor which aims at carrying out risk assessment for various sectors and constant risk monitoring.

During 2018, the Risk Management Taskforce of the Guarantor expanded its risk assessment works to cover regional, district and professional corporate levels of the Guarantor based on risk assessment standards and risk management protocols. By deriving the Guarantor's annual risk events from data collection, consolidation and analysis was established and conducting preliminary assessment of those risk issues by functional departments at the headquarter, preliminary priority on the risk issues was established and existing measures and management procedures of corresponding risk issues were implemented. At the meetings of the Management Level Risk Management Committee, the team determined the Guarantor's annual risk management issues and their priorities, established risk management procedures and designated risk management departments and risk responsible persons. The final annual risk issues and management plans shall be submitted to the Audit and Risk Management Committee and the Board of the Guarantor for consideration.

During 2018, the Risk Management Taskforce of the Guarantor established a routine coordination mechanism between functional departments and subordinate companies to coordinate management and supervision in order to improve risk management collectively. The team also continued to monitor changes in material risks and the implementation of countermeasures, integrate the risk management works into the course of business operation of the Guarantor and entrench the risk management works in the organisational operation and the process of achieving the business goal.

Internal Control

The Guarantor has established appropriate internal control system. In relation to relevant procedures of investment, operation, finance and compliance, the management of the Guarantor has designed and implemented a series of systems, policies and programs and has monitored the implementation and effectiveness of such policies and programs. Key control measures are set out below:

The Guarantor assigns job roles based on the control requirements over division of labor to establish a work scheme where every job role fulfills its own responsibilities and imposes a check-and-balance against each other. In respect of business approval, the Guarantor has put in place control over authorization and approval and clarified the authority, approval program and corresponding duties of each position in respect of business operation and matter. For daily approval operation, the efficiency and effectiveness of control over authorization and approval is assured through automatic control on an information platform. The Guarantor has devised standardized accounting procedures and a specific business audit system to enhance account management and uplift the quality and level of accounting tasks. To guarantee the authenticity and integrity of accounting data and information, the Guarantor continues to develop and perfect its financial information system.

Through comprehensive budget management, the Guarantor ascertains responsibility and authority for each level unit in budget management and regulates the preparation, review and execution program of budget. It implements dynamic budget management to assess the result of budget execution. The Guarantor is always impartial, transparent and performance-oriented when conducting interim and year-end assessments so that the results of the performance assessment can be referred to for the remuneration allocation, talent promotion and nurturing, workforce reinforcement, salary and benefit adjustments, etc.

In addition, the Guarantor has established the Intendance and Audit Department, which is responsible for the internal audit function, assisting the Board of the Guarantor and the Audit and Risk Management Committee in on-going monitoring of the risk management and internal control systems of the Guarantor, identifying the deficiencies in the design and implementation of risk management and internal controls and proposing appropriate recommendations for improvement. Significant internal control deficiencies, if identified, will be reported to the Audit and Risk Management Committee and the Board of the Guarantor on a timely basis. Remediation plans will be established and a responsible person will be appointed for a timely follow-up to ensure improvement to the situation.

Review of Risk Management and Internal Control Systems

The Intendance and Audit Department (the "**Department**") regularly reviews the work of risk management and internal control of the Guarantor every half year and reports to the Audit and Risk Management Committee and the Board of the Guarantor. In the report to the Audit and Risk Management Committee and the Board of the Guarantor, the Department discusses the major risks of the business of the Guarantor and determines whether the risk management and internal control systems are effective. The Audit and Risk Management Committee will consider and assess the risks of the Guarantor and the control measures to be taken to manage the risks. The Audit and Risk Management Committee will also review the findings of the Department's review on the Guarantor's business and operation of the control systems and the implementation plan, and its proposal for addressing any deficiency of the control systems. In addition, the external auditors host regular discussion with the Audit and Risk Management Committee on any internal control problem identified in the course of the audit. After reviewing the effectiveness of the internal control system, the Audit and Risk Management Committee will report any deficiency of the system and give recommendations on managing the business risks and rectification measures to the Board of the Guarantor. In 2018, the Board of the Guarantor has assumed the responsibility and reviewed the effectiveness of the risk management and internal control systems of the Guarantor and its subsidiaries, including financial reporting, operation and regulation compliance.

In order to optimize the risk management and internal control systems of the Guarantor, in 2018, the Guarantor engaged Deloitte Touche Tohmatsu ("**Deloitte**"), an independent auditor, to conduct review on the systems and audit their sufficiency to be effectiveness. Upon reviewing the Department's report and the audit result of Deloitte, the Board of the Guarantor considered that the systems to be effective and efficient. During the year of 2018, no material deficiency of the systems was found, and appropriate rectification measures were taken by the Guarantor to correct weaknesses in its control (if any). The Board of the Guarantor believes the systems are operated effectively and reviewed and found that various risks that may affect the Guarantor's achievement of goals are under control.

The Board of the Guarantor had also reviewed and found that the headcount, qualification and experience of the staff of the audit, internal audit and financial reporting functions of the Guarantor as well as training programs and budget were sufficient.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Guarantor regularly reminds the directors, senior management and employees about due compliance with all policies regarding the inside information and keeps them apprised of the latest regulatory updates. Employees who are privy or have access to inside information have also been notified from time to time on observing the restrictions pursuant to the relevant requirements.

Board Committees

Currently, the Board of the Guarantor has set up four committees, namely Executive Committee, Audit and Risk Management Committee, Remuneration Committee and Nomination Committee to implement internal supervision and control on each relevant aspect of the Guarantor.

Executive Committee

Major responsibilities and functions of the Executive Committee are as follows:

- to review and approve loans or banking facilities to be granted to the Guarantor, its subsidiaries, jointly controlled entities and associated companies and the opening of bank or securities related accounts matters;

- to review and approve financial instruments to be issued by the Guarantor, its subsidiaries, jointly controlled entities and associated companies;

- to review and approve grant of loan or other financial assistance to the Guarantor's jointly controlled entities and/or associates;

- to review and approve provision of corporate guarantees, indemnity and/or letter of comfort by the Guarantor for its subsidiaries, jointly controlled entities and/or associates;

- to review and approve land auctions or tenders, and contracts in the ordinary and usual course of business of the Guarantor; and

- to deal with any other specific business delegated by the Board of the Guarantor.

The Executive Committee, which comprises all Executive Directors of the Guarantor, shall report to the Board of the Guarantor on a regular basis and the resolutions passed by the Executive Committee from time to time shall be tabled for the information of all directors at the Board meetings.

During 2018, the Executive Committee held eleven meetings to (amongst other matters) review and approve:

- various bank loans and facilities;

- provision of corporate guarantee for the subsidiaries, joint controlled entities and/or associates of the Guarantor; and

- land auctions and contracts in the ordinary and usual course of business of the Guarantor.

Audit and Risk Management Committee

The principal duties of the Audit and Risk Management Committee are as follows:

- to review and monitor the integrity of the financial information of the Group;
- to review the financial control, internal control and risk management systems of the Guarantor; and
- to oversee the matters relating to the external auditor.

The Audit and Risk Management Committee comprises three members, namely Mr. Li Man Bun, Brian David, Mr. Lam Kwong Siu and Dr. Fan Hsu Lai Tai, Rita, all of whom are Independent Non-Executive Directors of the Guarantor. The Audit and Risk Management Committee is chaired by Mr. Li Man Bun, Brian David. For the purpose of reinforcing their independence, at least one of the members of the Audit and Risk Management Committee has appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit and Risk Management Committee held four meetings during 2018 and reviewed:

- the Group's financial reports for the year ended 31 December 2017, interim and quarterly results;
- the audit plans from the external auditor;
- the internal and independent audit results;
- the connected transactions entered into by the Group;
- risk management, internal control and financial reporting systems; and
- the re-appointment of the external auditor and their remuneration.

The Audit and Risk Management Committee also met with the auditor twice a year in the absence of management to discuss matters relating to any issue arising from audit and any other matters the auditor may wish to raise.

Remuneration Committee

The principal duties of the Remuneration Committee are as follows:

- to make recommendations to the Board of the Guarantor on the Guarantor's remuneration policy and structure for all directors and senior management;
- to make recommendations to the Board of the Guarantor on the remuneration packages of individual Executive Directors and senior management; and
- to review and approve the management's remuneration proposals with reference to the Guarantor's Board's corporate goals and objectives.

The remuneration of directors approved by the shareholders of the Guarantor is determined by the Board of the Guarantor with reference to factors such as salaries paid by comparable companies, time commitment, responsibilities of the directors and employment conditions.

The Remuneration Committee has the following members and all of them are Independent Non-Executive Directors:

- Mr. Lam Kwong Siu *(Chairman)*
- Dr. Fan Hsu Lai Tai, Rita
- Mr. Li Man Bun, Brian David

The Remuneration Committee held three meetings during 2018 and reviewed:

- the remuneration policy of the Group and directors' remunerations;
- the remuneration package of individual Executive Directors and Non-Executive Directors; and
- grant of the share options pursuant to the Share Option Scheme (as defined in section headed "*Share Option Scheme*" in the annual report for the year ended 31 December 2018 of the Guarantor with details set out thereto).

Nomination Committee

The following are major responsibilities and duties of the Nomination Committee:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board of the Guarantor;
- to identify individuals suitably qualified to become the Guarantor's Board members and make recommendations to the Board of the Guarantor on the selection of individuals nominated for directorships;
- to assess the independence of Independent Non-Executive Directors; and
- to make recommendations to the Board of the Guarantor on the appointment or re-appointment of directors and succession planning for directors.

When selecting individual to be nominated for directorship, the Nomination Committee will have regard to the Procedure regarding Appointment, Election and Removal of directors of the Guarantor (equivalent to the nomination policy of the Guarantor and hereafter referred to as "**Nomination Policy**") which has come in force since 27 May 2014. Individual to be nominated shall satisfy the requirements as set out in the Listing Rules including that the nominee should have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with his or her position as a director.

Further, the Board of the Guarantor has adopted a board diversity policy effective since 6 August 2013 in order to achieve a sustainable and balanced development of the Guarantor. Board diversity takes into account number of aspects, including but not limited to gender, age, educational background, professional experience, knowledge, culture and length of service. All the Guarantor's Board appointments will be based on merit and selection of candidates will be based on a range of diversity factors. The Nomination Committee is responsible for reviewing this policy (if necessary), making recommendation to the Board of the Guarantor of the amendment of this policy and developing measurable objectives to implement this policy and for monitoring progress towards the achievement of these objectives.

The Board of the Guarantor comprises seven directors and three of them are Independent Non-Executive Directors, thereby promoting critical review and control of the management process.

In addition, the process and procedure of nominating a director is regulated under the Nomination Policy. A proposal for the appointment of a new director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are experienced and high calibre individuals. All candidates must be able to meet the standards set out in the Listing Rules.

The Nomination Committee has the following members and all of them are Independent Non-Executive Directors:

- Dr. Fan Hsu Lai Tai, Rita *(Chairperson)*
- Mr. Lam Kwong Siu
- Mr. Li Man Bun, Brian David

The Nomination Committee held two meetings during 2018 and reviewed the rotation and appointment of directors.

Senior Management

The members of the senior management of the Guarantor as at the date of this Offering Circular are as follows:

Name	Title
Mr. Zhang Yi	Vice President
Mr. Qi Dapeng	Vice President
Mr. Guo Yong	Vice President
Mr. Kan Hongbo	Vice President
Mr. Ouyang Guoxin	Vice President
Mr. Zhuang Yong	Vice President
Mr. Chen Deyou	Vice President
Mr. Lui Sai Kit, Eddie	Chief Financial Officer
Mr. Zhang Zhichao	Vice President

Name	Title
Ms. Xu Xin	Assistant President
Mr. Xu Wendong	Assistant President
Mr. Liu Xianyong	Assistant President
Mr. Xu Feng	Assistant President
Mr. Liu Huiming	Assistant President

The biographies of the key senior management of the Guarantor as at the date of this Offering Circular are as follows:

Mr. ZHANG Yi
Vice President of China Overseas Land & Investment Ltd.

Aged 52, graduated from Tianjin University of Finance & Economics and Peking Economics University (now known as Capital University of Economics and Business) and Graduate Economics Training Center at Renmin University of China, holder of a master's degree, senior economist. He joined CSCEC in 1994 and was seconded to the Group during the year. Mr. Zhang has about 25 years' management experience in public relation and investment strategy.

Mr. QI Dapeng
Vice President of China Overseas Land & Investment Ltd.

Aged 49, graduated from Jilin University and Harbin Institute of Technology, holder of a master's degree, senior accountant. He joined the Group in 1997, and has about 27 years' experience in finance and corporate management.

Mr. GUO Yong
Vice President of China Overseas Land & Investment Ltd.

Aged 56, graduated from Chongqing Jianzhu University (now known as Chongqing University) and holds a Master of Business Administration degree from Troy State University, Alabama, USA, senior engineer. He joined the Group in 1993, and was the Executive Director of the Guarantor during the period from March 2013 to October 2015. He is currently the Vice President of the Guarantor. Mr. Guo has about 35 years' management experience in engineering management and corporate management.

Mr. KAN Hongbo
Vice President of China Overseas Land & Investment Ltd.

Aged 56, graduated from Hefei University of Technology and holder of a master's degree, professorate senior engineer. He joined the Group in 1995, and was the Executive Director of the Guarantor during the period from March 2013 to October 2015. He is currently the Vice President of the Guarantor. Mr. Kan has about 35 years' management experience in engineering management.

Mr. OUYANG Guoxin
Vice President of China Overseas Land & Investment Ltd.

Aged 51, graduated from Chongqing Normal University, holder of an Executive Master of Business Administration from Tsinghua University and a Doctor of Economics from Peking University, senior economist. He joined the Group in 1997. Mr. Ouyang has about 28 years' experience in construction and corporate management.

Mr. ZHUANG Yong
Vice President of China Overseas Land & Investment Ltd.

Aged 42, graduated from Chongqing University, holder of a master's degree, senior engineer. He joined the Group in 2000. Mr. Zhuang has about 19 years' experience in corporate management.

Mr. CHEN Deyou
Vice President of China Overseas Land & Investment Ltd.

Aged 48, graduated from Valparaiso University, holder of a master's degree, senior accountant, senior economist. He joined CSCEC in 1993, and joined the Group in 2017. Mr. Chen has about 26 years' management experience in corporate finance and law.

Mr. LUI Sai Kit, Eddie
Chief Financial Officer of China Overseas Land & Investment Ltd.

Aged 55, has a master's degree in Business Administration from University of Ottawa, Canada. Mr. Lui is a member of the Hong Kong Institute of Certified Public Accountants, the American Institution of Certified Public Accountants, the Chartered Institution of Management Accountants of United Kingdom and the Chartered Professional Accountants of Canada. Mr. Lui joined the Group in 2018 and has about 32 years' experience in financial management and corporate financing.

Mr. ZHANG Zhichao
Vice President of China Overseas Land & Investment Ltd.

Aged 40, graduated from Southeast University. He joined the Group in 2001. Mr. Zhang has about 18 years' management experience in construction and corporate management.

Ms. XU Xin
Assistant President of China Overseas Land & Investment Ltd.

Aged 50, graduated from Beijing Institute of Civil Engineering and Architecture (now known as Beijing University of Civil Engineering and Architecture), holder of a Master of Business Administration from Cheung Kong Graduate School of Business, senior engineer. She joined a subsidiary of CSCEC in 1995, and joined the Group in 2014. Ms. Xu has about 28 years' experience in construction, engineering and corporate management.

Mr. XU Wendong
Assistant President of China Overseas Land & Investment Ltd.

Aged 52, graduated from Harbin Institute of Civil Engineering and Architecture (now known as Harbin Institute of Technology), architect. He joined the Group in 2001. Mr. Xu has about 31 years' experience in architectural design and corporate management.

Mr. LIU Xianyong
Assistant President of China Overseas Land & Investment Ltd.

Aged 47, graduated from Harbin University of Architecture and Engineering (now known as Harbin Institute of Technology), senior economist. He joined the Group in 1995. Mr. Liu has about 24 years' experience in marketing and corporate management.

Mr. XU Feng
Assistant President of China Overseas Land & Investment Ltd.

Aged 43, graduated from Zhejiang University, senior engineer. Mr. Xu joined CSCEC in 1999, joined the Group in 2004. Mr. Xu has about 20 years' management experience in human resources management and corporate management.

Mr. LIU Huiming
Assistant President of China Overseas Land & Investment Ltd.

Aged 41, graduated from Tsinghua University, holder of a master's degree, senior engineer. He joined the Group in 2003. Mr. Liu has about 16 years' management experience in construction and corporate management.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement that will be issued in respect of each Tranche will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue:

[**MiFID II product governance/Professional investors and ECPs only target market** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**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**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). 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 Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), 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 CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).][1]

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKSE**") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

HKSE has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on HKSE is not to be taken as an indication of the commercial merits or

[1] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer

credit quality of the Programme, the Notes or the Issuer or the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

[Date]

China Overseas Finance (Cayman) VIII Limited

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Guaranteed by China Overseas Land & Investment Limited (中國海外發展有限公司)
under its U.S.$2,500,000,000
Guaranteed Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated [●] 2019 (the "**Offering Circular**") [and the Supplementary Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement, the Offering Circular [and the Supplementary Offering Circular dated [●]].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] 2019. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [●] 2019 [and the Supplementary Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [●] and are attached hereto.] Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement, the Offering Circular [and the Supplementary Offering Circular dated [●]].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1	(i)	Issuer:	China Overseas Finance (Cayman) VIII Limited
	(ii)	Legal Entity Identifier (LEI):	[●]
	(iii)	Guarantor:	China Overseas Land & Investment Limited (中國海外發展有限公司)
2	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [date]][Not Applicable]
3		Specified Currency or Currencies:	[●]
4		Aggregate Nominal Amount:	
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(if applicable)*]
	[(ii)	Net proceeds:	[●]] [*Delete for unlisted issuances*.]
6	(i)	Specified Denominations:[2, 3]	[●]
	(ii)	Calculation Amount:	[●]

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2 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

3 If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000. In relation to any issue of Notes which are a "Global Note exchangeable to Definitive Notes" in circumstances other than in the limited circumstances specified in the Global Note, such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*specify/Issue Date/Not Applicable*]
8	Maturity Date:	[*Fixed rate — specify date/Floating rate —* Interest Payment Date falling in or nearest to [*specify month*]][4]
9	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR/CNH HIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [specify other]
11	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*] [Not Applicable]
12	Put/Call Options:	[Investor Put][5] [Issuer Call] [Change of Control Put Option] [(further particulars specified below)]
13	Date of [Board] approval for issuance of Notes and Guarantee obtained:	[●] [and [●], respectively] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*
14	Listing:	[The Stock Exchange of Hong Kong Limited/ *specify other*/None] (For Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes)

4 Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

5 For as long as Bearer Notes issued in accordance with TEFRA D are represented by a Temporary Global Note, an Investor Put shall not be available unless the certification required under TEFRA D with respect to non-U.S. beneficial ownership has been received by the Issuer or the Agent.

15	Method of distribution:	[Syndicated/Non-syndicated]

Provisions Relating to Interest (if any) Payable

16	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/ semi-annually/quarterly/other *(specify)*] in arrear] *(If payable other than annually, consider amending Condition 5)*
	(ii) Interest Payment Date(s):	[[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted*] *(N.B.: This will need to be amended in the case of long or short coupons)*
	(iii) Fixed Coupon Amount(s): *(Applicable to Notes in definitive form)*	[●] per Calculation Amount[6]
	(iv) Broken Amount(s): *(Applicable to Notes in definitive form)*	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) or Actual/365 (Fixed)[7] or [specify other]]
	(vi) Determination Date(s):	[●] in each year *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]* *(N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration)* *(N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA))*

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6 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards in the case of Renminbi denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

7 Applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
17	Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Interest Period(s):	[●] [[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment [, as the Business Day Convention in (v) below is specified to be Not Applicable]
	(ii) Specified Period(s)/Specified Interest Payment Dates:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
	(iii) Interest Period Date:	[Not Applicable]/[●][in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]
	(iv) First Interest Payment Date:	[●]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other *(give details)*][Not Applicable]
	(vi) Additional Business Centre(s):	[●]
	(vii) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
	(viii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[●]
	(ix) Screen Rate Determination:	

— Reference Rate:	[●]
	(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)
— Interest Determination Date(s):	[●]
	(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
— Relevant Screen Page:	[●]
	(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
(x) ISDA Determination:	
— Floating Rate Option:	[●]
— Designated Maturity:	[●]
— Reset Date:	[●]
(xi) Margin(s):	[●]
(xii) Minimum Rate of Interest:	[●] per cent. per annum
(xiii) Maximum Rate of Interest:	[●] per cent. per annum
(xiv) Day Count Fraction:	[Actual/Actual or Actual/Actual (ISDA) Actual/365(Fixed) Actual/365(Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) Other] *(See Condition 5 for alternatives)*

	(xv)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18	Zero Coupon Note Provisions:		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Amortisation Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[*Specify*] *(Consider applicable day count fraction if not US dollar denominated)*
19	Index Linked Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula:	[*give or annex details*]
	(ii)	Calculation Agent:	[●]
	(iii)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[●]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(v)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
	(vii)	Additional Business Centre(s):	[●]
	(viii)	Minimum Rate of Interest:	[●] per cent. per annum

	(ix)	Maximum Rate of Interest:	[●] per cent. per annum
	(x)	Day Count Fraction:	[●]
20	Dual Currency Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	*[give or annex details]*
	(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

Provisions Relating to Redemption

21	Issuer Call:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/specify other/ see Appendix]
	(iii)	If redeemable in part:	[●]
		(a) Minimum Redemption Amount:	[●]
		(b) Maximum Redemption Amount:	[●]
	(iv)	Notice period (if other than as set out in the Conditions):	*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)*

22	Investor Put:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/specify other/ see Appendix]
	(iii) Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)*
23	Change of Control Put:	[Applicable/Not Applicable]
24	Final Redemption Amount:	[[●] per Calculation Amount/specify other/ see Appendix]]
25	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same:	[[●] per Calculation Amount/specify other/ see Appendix]]

General Provisions Applicable to the Notes

26	Form of Notes:	[**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice[8]] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

8 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000", the Temporary Global Note shall not be exchangeable on [●] days' notice.

		[**Registered Notes:** Global Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Certificate]
27	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] *(Note that this paragraph relates to the place of payment and not Interest Period end dates)*
28	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. N.B.: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
30	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	[Not Applicable/*give details*]
	(ii) Instalment Date(s):	[Not Applicable/*give details*]
31	Redenomination applicable:	Redenomination [not] applicable [*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*]
32	Consolidation provisions:	[Not Applicable/The provisions] [annexed to this Pricing Supplement] apply]
33	Notification to PRC Authorities	[*specify the NDRC Circular*] *(Please see Condition 4(d) for further details)*
34	Other terms or special conditions:	[Not Applicable/*give details*]

Distribution

35	(i) If syndicated, names and addresses of Managers/relevant Dealer and commitments:	[Not Applicable/*give names and addresses and commitments*]

	(ii) Date of Subscription Agreement:	[●]
	(iii) Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
36	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name and address*]
37	Total commission and concession:	[●] per cent. of the Aggregate Nominal Amount
38	U.S. Selling Restrictions:	[Reg. S Category 1/Category 2; TEFRA D/ TEFRA C/TEFRA not applicable[9]]
39	Additional selling restrictions:	[Not Applicable/*give details*]
40	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable][10]
41	Private Banking Rebate:	[Applicable/Not Applicable]

Operational Information

42	Any clearing system(s) other than Euroclear or Clearstream and the relevant identification number(s):	[CMU/Not Applicable/*give name(s) and number(s)*]
43	Delivery:	Delivery [against/free of] payment
44	Additional Paying Agent(s) (if any):	[●]
	ISIN:	[●]
	Common Code:	[●]

(insert here any other relevant codes such as a CMU instrument number)

45	Ratings:	[●]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

9 "TEFRA not applicable" is only available for Bearer Notes with a with a term of 365 days or less (taking into account any unilateral extensions and rollovers) or Registered Notes.

10 If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.

[STABILISATION

In connection with this issue, [insert name of Stabilisation Manager] (the "Stabilisation Manager") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end after a limited period. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.]

[Listing Application

This Pricing Supplement comprises the final terms required for the issue of Notes described herein pursuant to the U.S.$[●] Guaranteed Medium Term Note Programme of China Overseas Finance (Cayman) VIII Limited.]

Responsibility

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of CHINA OVERSEAS FINANCE (CAYMAN) VIII LIMITED as the Issuer:	Signed on behalf of CHINA OVERSEAS LAND & INVESTMENT LIMITED (**中國海外發展有限公司**) as the Guarantor:
By: ______________________	By: ______________________
Duly authorised	Duly authorised

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued by China Overseas Finance (Cayman) VIII Limited (the "**Issuer**") pursuant to the Trust Deed (as defined below). The due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed is guaranteed by China Overseas Land & Investment Limited (中國海外發展有限公司) (the "**Guarantor**") as specified hereon. The Notes are constituted by a trust deed (as amended and/or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") dated 5 July 2019 between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited (德意志信託(香港)有限公司) (the "**Trustee**", which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (these "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An agency agreement (as amended and/or supplemented as at the Issue Date, the "**Agency Agreement**") dated 5 July 2019 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Hong Kong Branch as initial paying agent, Deutsche Bank AG, Hong Kong Branch as lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU**") and the other agents named in it. The principal paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Principal Paying Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Principal Paying Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**" (such Principal Paying Agent, CMU Lodging and Paying Agent, Paying Agents, Registrar, Transfer Agents and Calculation Agent(s) being together referred to as the "**Agents**"). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by the resolutions of the board of directors of the Guarantor on 3 July 2019. For the purposes of these Conditions, all references to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders following prior written request and satisfactory proof of holding at all reasonable times during usual business hours at the principal place of business of the Trustee (presently at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified office for the time being of the Principal Paying Agent.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects, and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series with such Tranche of Notes and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or issue prices.

1 FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and any other evidence as the Registrar or the relevant Transfer Agent may require to prove the title of the transferor and the authority of the individuals that have executed the forms of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon written request.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within seven business days of receipt of a duly completed form of transfer or a CoC Put Exercise Notice (as defined in Condition 6(d)) or an Exercise Notice (as defined in Condition 6(f)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Put Exercise Notice, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Put Exercise Notice, the Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate (but free of charge to the holder and at the expense of the Issuer (failing whom the Guarantor)) to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business**

day" means a day, other than a Saturday or Sunday or public holiday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon (i) payment by the relevant Noteholders of any tax or other governmental charges that may be imposed in relation to them (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require); and (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application.

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) after the exercise of the put option in Condition 6(d), (iii) after the exercise of the put option in Condition 6(f), (iv) during the period of 15 days prior to any date on which Notes are being called for redemption in part by the Issuer at its option, (v) after any such Note has been called for redemption where not all the Notes are being called for redemption or (vi) during the period of seven days ending on (and including) any Record Date.

3 GUARANTEE AND STATUS

(a) **Status of Notes:** The Notes and the Receipts and the Coupons relating to them constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable laws and subject to Condition 4(a), at all times rank at least equally with all other present and future unsecured and unsubordinated indebtedness and monetary obligations of the Issuer.

(b) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. The Guarantor's obligations in that respect (the "**Guarantee**") are contained in the Trust Deed. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and subject to Condition 4(a), at all times rank at least equally with all other present and future unsecured and unsubordinated indebtedness and monetary obligations of the Guarantor.

4 NEGATIVE PLEDGE AND OTHER COVENANTS

(a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), each of the Issuer and the Guarantor will not, and the Guarantor will procure that none of their respective Subsidiaries (as defined below in Condition 4(c)) (except any Listed Subsidiaries (as defined below in Condition 4(c))) will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of its undertaking, assets or revenues present or future to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness (as defined below in Condition 4(d)), or to secure any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes or Coupons or, as the case may be, the Guarantor's obligations under the Guarantee (a) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution of the Noteholders (as defined in the Trust Deed) of the Noteholders.

(b) **Notification to NDRC:** Where it is specified hereon that the NDRC Circular applies to any Note to be issued in accordance with these Conditions, the Guarantor undertakes (i) to file or cause to be filed with the NDRC the requisite information and documents in respect of the Notes (or any further notes issued pursuant to Condition 15 and forming a single Series with the Notes) within the prescribed timeframe in accordance with the NDRC Circular (the "**NDRC Post-issue Filing**"); (ii) to comply with all applicable PRC laws and regulations in connection with the NDRC Post-issue Filing; and (iii) to, within 10 Registration Business Days after submission of the NDRC Post-issue Filing, provide the Trustee with (A) a certificate in English substantially in the form set out in the Trust Deed by an Authorised Signatory (as defined in the Trust Deed) of the Guarantor confirming the submission of the NDRC Post-issue Filing; and (B) copies of the relevant documents submitted in respect of the NDRC Post-issue Filing certified in English as true and complete copies of the originals by an Authorised Signatory of the Guarantor (the items specified in (A) and (B) together, the "**Registration Documents**"), and the Trustee may rely conclusively without liability to any Noteholder or any other person on any such certificate or document). In addition, the Guarantor shall procure that within 10 Registration Business Days after the documents comprising the Registration Documents are delivered to the Trustee, the Issuer will give notice to the Noteholders (in accordance with Condition 16) confirming the NDRC Post-issue Filing. The Trustee and the Agents shall have no obligation or duty to monitor, assist with or ensure the filing or completion of the NDRC Post-issue Filing or to verify the accuracy, validity and/or genuineness of any certificate, confirmation or other document in relation to or in connection with the NDRC Post-issue Filing or to give notice to the Noteholders confirming the completion of the NDRC Post-issue Filing, and neither the Trustee nor any of the Agents shall be liable to Noteholders, the Issuer, the Guarantor or any other person for not doing so.

(c) **Definitions**

In these Conditions:

"**Listed Subsidiary**" means, at any time, any Subsidiary of the Guarantor the ordinary voting shares, interests or units of which are at such time listed on the Hong Kong Stock Exchange or any other stock exchange or securities market;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**NDRC Circular**" means the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by NDRC from time to time;

"**Potential Event of Default**" means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10 become an Event of Default;

"**PRC**" means the People's Republic of China which, for the purposes of these Conditions, shall not include the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**Registration Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in Beijing, PRC;

"**Relevant Indebtedness**" means any present or future indebtedness in the form of, or represented by, notes, bonds, debentures, debenture stock, loan stock, certificates or other securities which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than Renminbi or (ii) are denominated or payable in Renminbi and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside the PRC by the Issuer, the Guarantor or the Guarantor's Subsidiaries or with the authorisation of any of them and (b) are or are capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market;

a "**Subsidiary**" means, in relation to the Issuer or the Guarantor, any company or entity (i) in which the Issuer or as the case may be, the Guarantor holds a majority of the voting rights, interests or units or (ii) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer or as the case may be, the Guarantor is a member and controls a majority of the voting rights, interests or units or (iv) which is accounted for and consolidated in the audited consolidated accounts of the Issuer or, as the case may be, the Guarantor, as a subsidiary pursuant to applicable Hong Kong Financial Reporting Standards or International Financial Reporting Standards and includes any company which is a Subsidiary of a Subsidiary of the Issuer or as the case may be, the Guarantor.

5 INTEREST AND OTHER CALCULATIONS

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) **Interest Payment Dates:** Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) **Business Day Convention:** If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) **Rate of Interest for Floating Rate Notes:** The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ***ISDA Determination for Floating Rate Notes***

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) ***Screen Rate Determination for Floating Rate Notes***

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time in the case of CNH HIBOR) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time in the case of CNH HIBOR), as the case may be, on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR or HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall promptly notify the Issuer and the Issuer shall use all commercially reasonable endeavours to appoint an Independent Investment Bank and procure such Independent Investment Bank to request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Independent Investment Bank and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time in the case of CNH HIBOR) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time in the case of CNH HIBOR), as the case may be, on the Interest Determination Date in question. If two or more of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent has received offered quotations from fewer than two Reference Banks, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated at the request of the Independent Investment Bank to the Independent Investment Bank and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time in the case of CNH HIBOR) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time in the case of CNH HIBOR), as the case may be, on the relevant

Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Independent Investment Bank suitable for such purpose) informs the Independent Investment Bank and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

For the purpose of this Condition 5(b)(iii)(B), "**Independent Investment Bank**" means an independent financial institution of international repute or an independent financial adviser with appropriate experience (which shall not be the Calculation Agent) selected and appointed by the Issuer (at the expense of the Issuer, failing whom the Guarantor) for the purposes of this Condition 5(b)(iii)(B) and notified in writing by the Issuer to the Calculation Agent and the Trustee.

(iv) **Rate of Interest for Index Linked Interest Notes:** The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Accrual Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum Rate of Interest/Minimum Rate of Interest, Maximum Instalment Amount/Minimum Instalment Amount and Maximum Redemption Amount/Minimum Redemption Amount and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Maximum Instalment Amount or Minimum Instalment Amount or Maximum Redemption Amount or Minimum Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.

(j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may but shall not be obliged to do so (or may but shall not be obliged to appoint, at the cost of the Issuer, failing whom the Guarantor, an agent on its behalf to do so) and such determination or calculation shall be deemed for all purposes to have been made by the Calculation Agent. Any person so appointed by the Trustee shall not be an agent of the Trustee for any purpose. In doing so, the Trustee or such agent appointed by it shall apply the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro or Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual — ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR;

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Renminbi in the Hong Kong inter-bank market, in each case selected by the Issuer or the Independent Investment Bank (as defined in Condition 5(b)(iii)(B)) or as specified hereon;

"**Reference Rate**" means the rate specified as such hereon;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption column or other part of a particular information service);

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(l) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note or Coupon is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) Redemption by Instalments and Final Redemption:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its outstanding nominal amount) or, in the case of a Note falling within Condition 6(a)(i) above, its final Instalment Amount.

(b) Early Redemption:

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Accrual Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b)(i), except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph (C) shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued up to but excluding the date fixed for redemption), if the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that (i) it (or, if the Guarantee was called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdictions, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) become due. Prior to the giving of any notice of redemption pursuant to this Condition 6(c), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate signed by an Authorised Signatory of the Issuer (or by an Authorised Signatory of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 6(c) cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and (B) an opinion, addressed to and in form and substance satisfactory to the Trustee, of independent legal or tax advisers of recognised standing to the effect that the Issuer or the Guarantor (as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(c) without further enquiry and without liability to any Noteholder or Couponholder, in which event the same shall be conclusive and binding on the Noteholders and Couponholders. All Notes in respect of which any notice of redemption is given under Condition 6(c) shall be redeemed on the date and in such manner as specified in such notice in accordance with this Condition 6(c).

(d) **Redemption for Change of Control:** If Change of Control Put Option is specified as applicable hereon, at any time following the occurrence of a Change of Control, the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the CoC Put Settlement Date at their principal amount, together with accrued interest up to but excluding such CoC Put Settlement Date (as defined below). To exercise such right, the holder of the relevant Note must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent (or in the case of Registered Notes) the Certificates representing such Note(s) with the Registrar or any Transfer Agent, in each case at its specified office together with a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent, Transfer Agent or the Registrar (as applicable) (a "**CoC Put Exercise Notice**"), by not later than 30 days following the occurrence of a Change of Control or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 16. The "**CoC Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above in this Condition 6(d).

A CoC Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the CoC Put Exercise Notices delivered as aforesaid on the CoC Put Settlement Date.

The Issuer, failing whom the Guarantor, shall give notice to Noteholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 6(d) and shall give brief details of the Change of Control.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control or any event which may result in a Change of Control has occurred and shall not be responsible for or liable to Noteholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

In these Conditions:

a "**Change of Control**" occurs when:

(i) any Person or Persons acting together acquires or acquire Control of the Guarantor;

(ii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity; or

(iii) one or more Persons acquires the legal or beneficial ownership of all or substantially all of the Guarantor's issued share capital; and

"**Control**" means (i) the ownership or control of more than 50 per cent. of the voting rights of the issued share capital of the Guarantor or (ii) the right to appoint and/or remove all or the majority of the members of the Guarantor's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

"**Person**" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include (a) the Guarantor's board of directors or any other governing board; (b) the Guarantor's wholly-owned direct or indirect subsidiaries, or (c) any persons that have, or would be deemed to have, Control of the Guarantor on or before the date on which the agreement is reached to issue the first Tranche of the Notes.

"**Relevant Jurisdiction**" means the Cayman Islands or Hong Kong or, in the event that the Issuer or the Guarantor is organised or resident (or deemed to be organised or resident) for tax purposes therein, the PRC (which for this purpose, excludes Hong Kong, Macau and Taiwan) or any political subdivision or any authority therein or thereof having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it in respect of the Notes, the Receipts and Coupons or under the Guarantee (as the case may be).

(e) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) and in writing to the Trustee and the Principal Paying Agent, redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued up to and excluding the date fixed for redemption.

Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(e).

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as determined by the Issuer and notified in writing to the Trustee and the Principal Paying Agent, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(f) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon, together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent, in each case at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(h) **Purchases:** The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10, 11(a) and 12.

(i) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries shall be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Principal Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7 PAYMENTS AND TALONS

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:

(i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder or the relevant Agent, by transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Renminbi, by transfer from the relevant Paying Agent's office outside the United States to a Renminbi account maintained by or on behalf of the Noteholder with a Bank in Hong Kong.

In this Condition 7(a) and in Condition 7(c), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(c) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(c) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(c)(ii).

(ii) Interest (which for the purpose of this Condition 7(c) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi or otherwise specified, on the fifth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

(A) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the

Record Date or, alternatively, at the option of the relevant Agent, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(B) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(c), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(d) **Payments subject to Fiscal Laws:** All payments are subject in all cases to (i) any fiscal or other laws, regulations and directives applicable thereto in the place of payment but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

(e) **Appointment of Agents:** The Principal Paying Agent, the CMU Lodging and Paying Agent, the other Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the CMU Lodging and Paying Agent, the other Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee (where required in accordance with the Agency Agreement) to vary or terminate the appointment of the Principal Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Noteholders in accordance with Condition 16.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment or if a cheque mailed in accordance with Condition 7(a)(i) or Condition 7(c)(ii)(A) arrives after the due date for payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are generally open for business in the relevant place of presentation (if presentation and/or surrender of such Notes, Receipt or Coupon is required), in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

A. (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

B. (in the case of a payment in euro) which is a TARGET Business Day; or

C. (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 TAXATION

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee (as the case may be) shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any of the Relevant Jurisdictions unless such withholding or deduction is required by law.

In that event, the Issuer or, as the case may be, the Guarantor, shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Note, Receipt or Coupon or under the Guarantee (as the case may be):

(i) to, or to a third party on behalf of, a Noteholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(ii) presented (or in respect of which the Certificate representing it is presented) for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that the Noteholder or Couponholder would have been entitled to such Additional Tax Amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (A) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (B) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (C) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9 PRESCRIPTION

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in aggregate nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (provided in any such case that the Trustee shall first have been indemnified and/or secured and/or pre-funded to its satisfaction), give written notice to the Issuer and the Guarantor declaring that the Notes are, and they shall immediately become, due and payable at (in the case of Zero Coupon Notes) their Early Redemption Amount or (in the case of Notes other than Zero Coupon Notes) their nominal amount together (if applicable) with accrued interest:

(a) **Non-Payment:** if default is made in the payment of any principal, premium or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal or premium or 14 days in the case of interest; or

(b) **Breach of Other Obligations:** if the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee is of the opinion that the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days following the service by the Trustee on the Issuer or the Guarantor (as the case may be) of notice requiring the same to be remedied; or

(c) **Cross-Default:** if (i) any Indebtedness for Borrowed Money of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries becomes due and repayable prematurely by reason of an event of default, acceleration or potential event of default (however described); (ii) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment as extended by any applicable grace period; or (iii) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to make any payment in respect of any amount payable under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person on the due date for payment as extended by any applicable grace period; provided that no event described in this Condition 10(c) shall constitute an Event of Default unless the Indebtedness for Borrowed Money or other related liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid as specified in (i) through (iii) inclusive above of this Condition 10(c) which have occurred and are continuing, amounts to at least U.S.$100,000,000 (or the equivalent thereof in any other currency); or

(d) **Winding-up:** if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, save in the case of any Principal Subsidiary, for (i) any voluntary solvent winding up, liquidation or dissolution; or (ii) any reorganisation whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Guarantor and/or another Subsidiary of the Guarantor; and in each case, for the purposes of reorganisation on terms approved in writing by an Extraordinary Resolution of the Noteholders; or

(e) **Cessation of business, etc.:** if the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or (through an official action of the board of directors of the Guarantor or, as the case may be, the relevant Principal Subsidiary) threatens to cease to carry on all or any substantial part of its business (save (i) in the case of any Principal Subsidiary, where the cessation is for the purposes of a solvent winding-up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Guarantor and/or another Subsidiary of the Guarantor; (ii) in the case of any Principal Subsidiary, as a result of a disposal on arm's length terms; and (iii) in each case, for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders) or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries stops payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is adjudicated or found bankrupt or insolvent; or

(f) **Enforcement Proceedings:** if any Security (as defined in Condition 4(a)), present or future, created or assumed by the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries becomes enforceable and (i) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, or (ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to any judicial proceedings relating to itself, under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a general moratorium in respect of all or any substantial part of its debts), or (iii) an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or, as the case may be, in relation to all or any substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of all or any substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon or put in force against all or any substantial part of the undertaking or assets of any of them, and in any such case (other than the appointment of an administrator) unless initiated by the relevant company is not discharged or stayed within 40 days; or

(g) **Conveyance or Assignment:** if the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or

(h) **Nationalisation:** (i) all or (other than on arm's length terms) any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries is seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries is prevented by any such person from exercising normal control over all or (other than on arm's length terms) any substantial part of its undertaking, assets and revenues; or

(i) **Wholly-owned Subsidiary:** if the Issuer ceases to be a subsidiary wholly-owned and controlled, directly or indirectly, by the Guarantor; or

(j) **Invalidity or Enforceability:** if the Notes, the Coupons, the Guarantee, the Trust Deed or the Agency Agreement are or become unenforceable or invalid; or

(k) **Authorisations:** if any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer or the Guarantor to perform its obligations under the Notes, the Coupons, the Trust Deed or the Agency Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified; or

(l) **Analogous Events:** if any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Conditions 10(d) to 10(k) (both inclusive).

In this Condition 10:

"**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit;

"**Intermediate Single Subsidiary Holding Company**" means a Subsidiary whose sole business is the holding of shares, interests or units in one other Subsidiary (but, for the avoidance of doubt, not more than one other Subsidiary) and any other activities incidental thereto; and

"**Principal Subsidiary**" means any Subsidiary of the Guarantor:

(i) whose net profit or (in the case of a Subsidiary which itself has subsidiaries) consolidated net profit (before taxation and extraordinary items), as shown by its latest audited income statement are at least 10 per cent. of the consolidated net profit (before taxation and extraordinary items) as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries; or

(ii) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 10 per cent. of the consolidated gross assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries; or

provided that, in relation to paragraphs (i) and (ii) above of this definition:

(aa) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the

Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(bb) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (aa) above of this definition) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor;

(cc) in relation to any Subsidiary of the Guarantor, each reference in (i), (ii), (aa) or (bb) above of this definition to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any director of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary;

(dd) if the then latest published audited consolidated income statement of the Guarantor and its Subsidiaries show a net loss for the relevant financial period then there shall be substituted for the words "net profit" or "consolidated net profit", as the case may be, the words "gross revenues" or "consolidated gross revenues" for the purposes of this definition; and

(ee) notwithstanding the foregoing provisions, in the case of an Intermediate Single Subsidiary Holding Company which is not otherwise required to, and does not, prepare consolidated accounts, such Intermediate Single Subsidiary Holding Company shall not be required to prepare consolidated accounts solely for the purpose of determining whether or not it is a Principal Subsidiary but in those circumstances it shall be deemed to be a Principal Subsidiary if its Subsidiary is itself a Principal Subsidiary; or

(iii) any Subsidiary of the Guarantor to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provision of paragraphs (i) or (ii) above of this definition.

A report by any director of the Guarantor whether or not addressed to the Trustee that in his or her opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall (in the absence of manifest error) be conclusive and binding on all parties.

11 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of the Noteholders of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Noteholders holding not less than 10 per cent. in aggregate nominal amount of the Notes for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution of the Noteholders shall be one or more persons holding or representing more than 50 per cent. in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest and/or an Instalment Amount and/or a Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest and/or Instalment Amount and/or Redemption Amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, or (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (viii) to modify or cancel the Guarantee (subject to Condition 11(b)), in which case the necessary quorum will be one or more persons holding or representing not less than $66^2/_3$ per cent. or at any adjourned meeting not less than 25 per cent. in aggregate nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution of the Noteholders duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate nominal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution of the Noteholders passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification of Agreements and Deeds:** The Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer or the Guarantor to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(c) **Substitution:** The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed, the Agency Agreement and such other conditions as may be set out in the Trust Deed or as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary as defined in the Trust Deed of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require on behalf of any Noteholder, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

12 ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without notice, take and/or institute such steps, actions and/or proceedings (including lodging an appeal in any proceedings) against or in relation to the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Guarantee, the Notes, the Receipts and the Coupons, but it need not take any such steps, actions and/or proceedings in relation to the Trust Deed, the Guarantee, the Notes, the Receipts and the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least 25 per cent. in aggregate nominal amount of the Notes then outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder and/or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

13 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability, including without limitation provisions relieving it from taking proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Noteholders. The Trustee shall be entitled to rely on any direction, request or resolution of Noteholders given by holders of the requisite nominal amount or percentage of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Noteholders by way of an Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. The Trustee shall have no obligation to monitor or ascertain whether any Event of Default (as defined in Condition 10), Potential Event of Default (as defined in Condition 4(d)) or Change of Control (as defined in Condition 6(d)) has occurred or to monitor compliance by the Issuer or the Guarantor with the provisions of the Trust Deed, the Agency Agreement or these Conditions, and shall not be liable to the Noteholders, Receiptholders and/ or Couponholders or any other person for not doing so.

The Trustee may rely without liability to the Issuer, the Guarantor, Noteholders, Receiptholders, Couponholders and/or any other person on any report, confirmation or certificate or any information form or any advice or opinion of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, information, advice or opinion and, in such event, such report, confirmation, certificate, information, advice or opinion shall be binding on the Issuer, the Guarantor and the Noteholders, Receiptholders and Couponholders.

14 REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer or the relevant Agent may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them and if applicable, the timing for the notification to the NDRC) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any such other securities issued pursuant to this Condition 15 and consolidated and forming a single series with the Notes.

16 NOTICES

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the expense of the Issuer (failing whom the Guarantor) in a leading newspaper having general circulation in Asia (which is expected to be the Wall Street Journal Asia). Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Asia and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the expense of the Issuer (failing whom the Guarantor) in a daily newspaper with general circulation in Asia (which is expected to be the Wall Street Journal Asia). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

So long as any Global Note or Global Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

So long as the Global Note or Global Certificate is held on behalf of the operator of the CMU any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to the accountholder shown in a CMU instrument position report issued by the operator of the CMU on the business day preceding the date of despatch of such notice as holding interests in the Global Note or Global Certificate.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Save as contemplated in these Conditions, no person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 GOVERNING LAW AND JURISDICTION

(a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons, the Agency Agreement and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, Receipts, Coupons or Talons and the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons, Talons or the Trust Deed ("**Proceedings**") may be brought in the courts of Hong Kong. Pursuant to the Trust Deed, each of the Issuer, the Guarantor and the Trustee has irrevocably submitted to the exclusive jurisdiction of the courts of Hong Kong and waived any objection to the jurisdiction of the courts of Hong Kong on the grounds that they are an inconvenient or inappropriate forum.

(c) **Agent for Service of Process:** The Issuer has irrevocably agreed to receive service of process at the registered office of the Guarantor in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer or the Guarantor, as the case may be). If for any reason the Guarantor ceases to have a place of business in Hong Kong, each of the Issuer and the Guarantor shall forthwith appoint an agent in Hong Kong to accept service of process on behalf of the Issuer and the Guarantor and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of the Guarantor ceasing to have a place of business in Hong Kong. Nothing in this Condition 18(c) shall affect the right to serve process in any manner permitted by law.

(d) **Sovereign Immunity:**

Each of the Issuer and the Guarantor has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise with respect to the Trust Deed and the Notes any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement made or given in connection with any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with these presents).

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Terms used in this section that are not otherwise defined shall have the meanings given to them in "Terms of Conditions of the Notes".

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or a sub-custodian for the CMU.

Upon the initial deposit of a Global Note or a Global Certificate with the Common Depositary or with a sub-custodian for the CMU or registration of Registered Notes in the name of (i) any nominee for the Common Depositary or for Euroclear and Clearstream or (ii) the Hong Kong Monetary Authority as operator of the CMU and delivery of the relevant Global Note or Global Certificate to the Common Depositary or the sub-custodian for the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent (as agent of the Issuer) for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme — Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a Permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. The payments in respect of a Note issued under TEFRA D pursuant to Conditions 6(d), 6(e) and 6(f) of the Terms and Conditions of the Notes may not be collected without certification as to non-U.S. beneficial ownership.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes if the Permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such 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 permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfer of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) of the Terms and Conditions of the Notes may only be made in part if the relevant 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 permanently to cease business or does in fact do so.

In the event that a Global Certificate is exchanged for a definitive certificate, such definitive certificate shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive certificate in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent).

In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Terms and Conditions of the Notes

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused.

Payments on any Temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to a Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(f)(vi) will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation (if applicable) shall be disregarded in the definition of "**business day**" set out in Condition 7(h) of the Terms and Conditions of the Notes.

The Issuer, for value received, promises to pay to the Registered Holder (as defined in the relevant Global Certificate) of the Notes represented by such Global Certificate on the Maturity Date the amount payable upon redemption under the Conditions in respect of the Notes represented by such Global Certificate and to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions of the Notes, save that the calculation is made in respect of the total aggregate amount of the Notes represented by such Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Terms and Conditions of the Notes, in accordance with the Terms and Conditions of the Notes.

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

Prescription

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 of the Terms and Conditions of the Notes).

Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholders holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Terms and Conditions of the Notes to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note or its presentation to or to the order of the Principal Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) for endorsement in the relevant schedule of such Permanent Global Note or, in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the Register, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a Permanent Global Note or by a Global Certificate may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of any Notes of the Issuer provided for in the Terms and Conditions of the Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Terms and Conditions of the Notes, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders of any Notes provided for in the Terms and Conditions of the Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Principal Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Terms and Conditions of the Notes substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised and the option may be exercised in respect of the whole or any part of the Permanent Global Note, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Principal Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent), for notation. Any option of the Noteholders provided for in the Terms and Conditions of the Notes while such Notes are represented by a Global Certificate may be exercised in respect of all or some of the Notes represented by the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interest if such accountholders were the holders of the Notes represented by such Global Note or the relevant Global Certificate, as the case may be.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or the relevant Global Certificate, as the case may be.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holders in respect of them.

TAXATION

The following summary of certain Cayman Islands, Hong Kong, PRC and US tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, 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 Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the Issuer or the Guarantor or any holder of Notes.

Accordingly, payment of principal of (including any premium) and interest on, and any transfer of, the Notes will not be subject to taxation in the Cayman Islands, no Cayman Islands withholding tax will be required on such payments to any holder of the Notes and gains derived from the sale of the Notes will not be subject to Cayman Islands capital gains tax.

No stamp duty is payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes. However, an instrument of transfer in respect of the Notes is stampable if executed in or brought into the Cayman Islands.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution or a Qualifying Corporate Treasury Centre (as defined in the Inland Revenue Ordinance of Hong Kong) (the "**IRO**") and arises through or from the carrying on by the financial institution or the Qualifying Corporate Treasury Centre of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, from the carrying on of a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

If the Notes are short or medium term debt instruments (as defined in the IRO), Hong Kong profits tax will be assessable at one-half of the standard profits tax rate.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong) (the "**SDO**").

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any sale and purchase or change in beneficial ownership of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

PRC

Pursuant to the CIT Law, the IIT Law and the implementation regulations in relation to both the CIT Law and the IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals, respectively, subject to adjustment by applicable treaty. As the Issuer is a PRC resident enterprise for tax purposes, interest paid to non-resident Noteholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Noteholders and at a rate of 20 per cent. for non-resident individual Noteholders (or a lower treaty rate, if any).

Such income tax shall be withheld by the Issuer that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment or payment due. To the extent that the PRC 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 non-PRC resident enterprise Noteholders.

Under Circular 36 which introduced a new VAT from 1 May 2016 to replace business tax, VAT is applicable where the entities or individuals provide services within the PRC. The revenues generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Accordingly, the interest and other interest like earnings received by a non-PRC resident Noteholder from the Issuer will be subject to PRC VAT at the rate of 6 per cent. The Issuer will be obligated to withhold VAT of 6 per cent. on payments of interest and certain other amounts on the Notes paid by the Issuer to Noteholders that are non-resident enterprises or individuals. In addition, the Noteholder shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. However, there is uncertainty as to whether gains derived from a sale or exchange of Notes consummated outside of the PRC between non-PRC resident Noteholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Notes between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Notes, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties. However, despite the withholding of the PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

Under the CIT Law and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed under the CIT Law as non-resident enterprises may be subject to PRC corporate income tax if such gains are regarded as income derived from sources within the PRC. Under the CIT Law, a "**non-resident enterprise**" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Notes by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, under the IIT Law, any individual who has no domicile and does not live within the territory of the PRC or who has no domicile but has lived within the territory of China for less than one year shall pay individual income tax for any income obtained within the PRC. There is uncertainty as to whether gains realised on the transfer of the Notes by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. corporate income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Taxation Arrangement, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes if such capital gains are not connected with an office or establishment that the Noteholders have in the PRC and all the other relevant conditions are satisfied.

No PRC stamp duty will be imposed on non-PRC Noteholders either upon issuance of the Notes or upon a subsequent transfer of Notes to the extent that the register of holders of the Notes is maintained outside the PRC and the issuance and the sale of the Notes is made outside of the PRC.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Noteholders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Joint Arrangers have, in a programme agreement dated 5 July 2019, as amended and/or supplemented from time to time (the "**Programme Agreement**"), agreed with the Issuer and the Guarantor a basis on which they or any of them may from time to time agree to subscribe Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*". Under the terms of the Programme Agreement, the Issuer (failing whom, the Guarantor) will pay each relevant Dealer a commission (if any) agreed between the Issuer, the Guarantor and the relevant Dealer in respect of Notes subscribed by it. The Issuer, failing whom the Guarantor, has agreed to reimburse the Arrangers for certain of their expenses properly incurred in connection with the establishment of the Programme and any future update of the Programme and the Dealers for certain of their activities in connection with the Programme.

Each of the Issuer and the Guarantor has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for each of the Issuer and the Guarantor and/or their affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of their business.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer and the Guarantor or their subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Selling Restrictions

United States of America

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act, and may not be offered or sold or, in the case of Bearer Notes, delivered within the United States except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold or, in the case of Bearer Notes, delivered, and will not offer or sell or, in the case of Bearer Notes, deliver, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold or, in the case of Bearer Notes, delivered, any Notes, and will not offer or sell or, in the case of Bearer Notes, deliver, any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer who has subscribed for Notes of a Tranche (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant lead manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Notes of such Tranche. Each Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree, that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the relevant lead manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, each Dealer represents and agrees that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and, in respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Exempt Notes which are also Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer, the Guarantor and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer and the Guarantor of any of their contents to any such U.S. person or other person within the United States, is prohibited.

EEA — Prohibition of Sales to EEA Retail Investors

Unless the applicable Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the European Economic Area.

For the purposes of this section:

(i) the expression "**retail investor**" means a person who is one (or more) of the following:

   (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   (b) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   (c) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**");

(ii) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Public Offer Selling Restriction under the Prospectus Directive

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of an offering circular in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such offering circular has subsequently been completed by the Pricing Supplement contemplating such

Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(iii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed that: (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**Securities and Futures Ordinance**") other than (a) to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular, any pricing supplement or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) 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, 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 (as defined in section 239(1) of 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:

(i) 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;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, 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 CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PRC

Each Dealer has represented and agreed that it has not offered or sold and will not offer or sell any of the Notes in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

Taiwan

Unless the Notes have been registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan, the Notes may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

The Cayman Islands

Each Dealer has represented, warrantied and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make any invitation to the public in the Cayman Islands or a natural person who is a Cayman Islands resident or citizen to offer or sell the Notes and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the Cayman Islands, except as otherwise permitted by Cayman Islands law.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply in all material respect with all applicable securities laws, regulations and directives in force in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Offering Circular, any other offering or publicity material or any Pricing Supplement, in all cases at its own expense.

None of the Issuer, the Guarantor, the Trustee, the Agents or any of the Dealers represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. With regard to each Tranche, the relevant Dealer(s) will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

1. **Listing of Notes:** Application will be made to the Hong Kong Stock Exchange for the listing of the Programme, and for the permission to deal in, and for the listing of, Notes issued under the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Admission to the Hong Kong Stock Exchange and quotation of any Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer, the Guarantor or the Group. The Hong Kong Stock Exchange takes no responsibility for the correctness of any statements made or opinions or reports contained herein. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

2. **Authorisations:** The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in connection with the Programme and the Guarantee by resolutions of the respective board of directors of the Issuer and the Guarantor, both dated 3 July 2019.

3. **NDRC Registration:** With respect to any applicable Tranche of the Notes, registration will be completed, or application for registration will be made, by the Guarantor in accordance with the NDRC Circular requirement. After issuance of any applicable Tranche of the Notes, the Guarantor shall report the issuance information to the NDRC within the prescribed timeframe in accordance with the NDRC Circular.

4. **No Material Adverse Change:** Other than as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Issuer, the Guarantor or the Group since 31 December 2018.

5. **Litigation:** Other than as disclosed in this Offering Circular, none of the Issuer, the Guarantor or members of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Guarantor believes are material in the context of the Notes nor is any of the Issuer or the Guarantor aware that any such proceedings are pending or threatened.

6. **Bearer Notes, Receipts, Coupons and Talons:** Notes issued pursuant to TEFRA D and any Receipts, Coupons or Talons appertaining thereto will bear the following legend: "ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

7. **Clearing of the Notes:** The Notes may be accepted for clearance through Euroclear, Clearstream or the CMU. The appropriate ISIN and common code or CMU Instrument Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. If the Notes are to be cleared through any additional or alternative Clearing System, the appropriate information will be specified in the applicable Pricing Supplement.

8. **Available Documents:** For so long as Notes may be issued pursuant to this Offering Circular, copies of the following documents (in the case of the documents specified in paragraphs (iii) to (vi) below, subject to receipt by the Trustee from the Issuer or the Guarantor of the same) will be available (upon written request and satisfactory proof of holding), during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the principal place of business of the Trustee, being at the date of this Offering Circular at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong:

   (i) the Trust Deed (which includes the form of the Global Notes, the Global Certificates, the Notes in definitive form, the Coupons, the Receipts and the Talons);

   (ii) the Agency Agreement;

   (iii) the Memorandum and Articles of Association of each of the Issuer and the Guarantor;

   (iv) copies of the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2017 and 2018;

   (v) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer or the Trustee as to its holding of Notes and identity); and

   (vi) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced.

   So long as any Note is outstanding, the Issuer and the Guarantor have covenanted in the Trust Deed to send to the Trustee, within the time limits stipulated therein, copies of:

   (i) the Guarantor's audited consolidated financial statements for each financial year of the Guarantor; and

   (ii) the Guarantor's unaudited consolidated financial statements for each first semi-annual period of the Guarantor.

9. **Reliance on Certificates:** Pursuant to the Terms and Conditions of the Notes and the Trust Deed, the Trustee may rely without liability to the Issuer, the Guarantor, Noteholders, Receiptholders, Couponholders and/or any other person on any report, confirmation, certificate or any information from or any advice or opinion of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, information, advice or opinion, in such event, such report, confirmation, certificate, information, advice or opinion shall be binding on the Issuer, the Guarantor, the Noteholders, Receiptholders and Couponholders.

INDEX TO FINANCIAL STATEMENTS

Independent Auditor's Report

pwc

羅兵咸永道

TO THE MEMBERS OF CHINA OVERSEAS LAND & INVESTMENT LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Overseas Land & Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 140 to 242, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Independent Auditor's Report (continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties; and
- Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to note 16 to the consolidated financial statements*	
The Group's investment properties amounted to HK$111,574 million as at 31 December 2018 and a fair value gain of HK$10,413 million was accounted for under "gain arising from changes in fair value of investment properties" in the consolidated income statement. Management engaged independent valuers to determine the valuation of the Group's investment properties. There are significant judgments and estimates involved in the valuation which mainly include: • Completed investment properties: The valuation was arrived at using investment approach by considering the capitalised income derived from the existing tenancies and the reversionary potential, including reversionary yields and prevailing market rents, of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. • Investment properties under construction: The valuation was arrived at using residual method by making reference to estimated selling prices as available in the relevant market. The estimated cost to complete the development and estimated developer's profit as at the date of valuation were also taken into account. The existence of significant judgments and estimates of the assumptions involved in the property valuations warrants specific audit focus and attention on this area.	Our procedures in relation to the valuation of investment properties included: • Assessing the competence, capability and independence of the valuers and discussing the scope of their work; • Assessing the methodologies used by the valuers and the appropriateness of the key assumptions based on our knowledge of the property industry, research evidence of reversionary yields, prevailing market rents, estimated selling prices with reference to comparable market transactions for similar properties and comparing the estimated developer's profit to historical records, focusing in particular on material properties where the growth in capital values was significantly higher or lower than our expectations based on available market information; and • Testing, on a sample basis, the data used in the valuation of properties, including rental rates from existing tenancies and estimated cost to complete, by agreeing them to the underlying agreements with the tenants and contractors respectively. Based on the audit procedures performed, we found the methodologies used in preparing the valuations were appropriate and the key assumptions were supportable in light of available and comparable evidence.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	
As at 31 December 2018, the total carrying values of the Group's stock of properties and net investments in unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects were HK$423,194 million. Management assesses the recoverability of property portfolio held by the Group's subsidiaries and the Group's net investments in unlisted associates and joint ventures, based on estimates of the net realisable values of the underlying stock of properties, either held by the Group's subsidiaries, unlisted associates or joint ventures. This involves estimation of, inter-alia, construction costs to be incurred to complete the properties under development based on existing plans and a forecast of future sales based on current market price of properties of comparable locations and conditions. Management concluded that no significant provision for impairment is necessary for the Group's stock of properties and net investments in unlisted associates and joint ventures. If the estimated net realisable values of the underlying stock of properties are significantly different from their carrying values as a result of changes in market conditions and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result. Accordingly, the existence of significant estimation uncertainty warrants specific audit focus and attention on this area.	Our procedures in relation to management's recoverability assessment included: **For the stock of properties held by the Group** • Testing the design and operating effectiveness of key internal controls around the property development cycle with particular focus on controls over cost budgeting and periodic review, sources of impairment assessment data and calculation of impairment provisions; • Understanding management's assessment, with reference to the appropriate supporting evidence, on the impairment of stock of properties which had relatively lower gross profit margins, within the general property development and sales cycle; and • For stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by management. For the forecast of future sales, we checked, on a sample basis, contracted sales price of the underlying properties and recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs and tested, on a sample basis, the construction costs to supporting documentations, e.g. construction contracts and other documentations.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	
	For the stock of properties held by the Group's significant unlisted associates and joint ventures • With reference to the appropriate supporting evidence, understanding the impairment assessment of net investments in unlisted associates and joint ventures performed by the Group's management, with their principal focus on underlying stock of properties held by the unlisted associates and joint ventures which had relatively lower gross profit margins; and • For companies with underlying stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by the Group's assessment on the expected cash flow and recoverable amount of the net investments in unlisted associates and joint ventures. For the forecast of future sales, we checked, on a sample basis, recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs to supporting documentations, or when necessary, based on our knowledge of the property industry and research evidence. We found the key assumptions in the recoverability assessment were supportable in light of available and comparable internal and other market evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent Auditor's Report (continued)

OTHER INFORMATION *(continued)*

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND RISK MANAGEMENT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit and Risk Management Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Management 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 and Risk Management 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 and Risk Management 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 Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Revenue	7	**171,461,059**	166,044,963
Business tax		**(1,802,162)**	(2,072,793)
Net revenue	7	**169,658,897**	163,972,170
Direct operating costs, exclude business tax above		**(104,855,413)**	(109,272,364)
		64,803,484	54,699,806
Other income and gains, net	9	**1,081,055**	5,353,577
Gain arising from changes in fair value of investment properties	16	**10,412,570**	5,946,121
Gain on disposal of investment properties		**23,265**	40,782
Gain on disposal of subsidiaries	37	**–**	165,865
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	38	**–**	2,140,171
Gain on acquisition of subsidiaries	38	**–**	326,267
Selling and distribution costs		**(2,621,750)**	(2,949,521)
Administrative expenses		**(2,966,589)**	(2,848,693)
Operating profit		**70,732,035**	62,874,375
Share of profits of			
Associates		**2,207,624**	1,164,116
Joint ventures		**1,214,358**	774,352
Finance costs	10	**(1,585,609)**	(1,393,544)
Profit before tax		**72,568,408**	63,419,299
Income tax expenses	11	**(25,866,438)**	(21,277,184)
Profit for the year	12	**46,701,970**	42,142,115
Attributable to:			
Owners of the Company		**44,900,303**	40,766,835
Non-controlling interests		**1,801,667**	1,375,280
		46,701,970	42,142,115
		HK$	*HK$*
EARNINGS PER SHARE	14		
Basic and diluted		**4.10**	3.72

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**46,701,970**	42,142,115
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation of the Company and its subsidiaries	**(12,407,154)**	9,892,806
Exchange differences on translation of associates and joint ventures	**(882,283)**	967,762
Changes in fair value of investments in syndicated property project companies	**(17,755)**	–
	(13,307,192)	10,860,568
Item that may be reclassified to profit or loss		
Exchange differences on translation of associates	**(571,435)**	780,201
Other comprehensive income for the year	**(13,878,627)**	11,640,769
Total comprehensive income for the year	**32,823,343**	53,782,884
Total comprehensive income attributable to:		
Owners of the Company	**31,670,385**	51,875,215
Non-controlling interests	**1,152,958**	1,907,669
	32,823,343	53,782,884

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Non-current Assets			
Investment properties	16	**111,574,402**	97,377,389
Property, plant and equipment	17	**3,666,270**	3,897,596
Prepaid lease payments for land	18	**531,615**	575,810
Interests in associates	19	**13,049,023**	8,232,345
Interests in joint ventures	20	**13,633,847**	12,405,070
Investments in syndicated property project companies		–	24,212
Available-for-sale investments		–	115,842
Amounts due from associates	21	**4,930,272**	8,969,792
Amounts due from joint ventures	21	**4,581,650**	6,592,674
Other receivables		**388,066**	456,540
Goodwill	36	**64,525**	64,525
Deferred tax assets	35	**5,888,836**	4,902,484
		158,308,506	143,614,279
Current Assets			
Inventories	22	**103,400**	82,852
Stock of properties	23	**382,808,752**	335,541,563
Land development expenditure	24	**28,715,739**	24,305,938
Prepaid lease payments for land	18	**15,389**	16,396
Trade and other receivables	25	**11,124,808**	14,300,567
Contract assets	2(c)	**1,491,080**	–
Deposits and prepayments		**9,498,236**	7,240,012
Deposits for land use rights for property development		**10,362,832**	2,386,145
Amounts due from fellow subsidiaries	26	**375,544**	356,221
Amounts due from associates	26	**7,746,515**	5,508,696
Amounts due from joint ventures	26	**7,414,115**	2,985,523
Amounts due from non-controlling shareholders	26	**1,384,113**	728,934
Amounts due from CITIC Group	27	–	197,949
Tax prepaid		**5,436,273**	4,089,095
Bank balances and cash	28	**100,555,356**	104,050,615
		567,032,152	501,790,506

Consolidated Statement of Financial Position (continued)

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Current Liabilities			
Trade and other payables	29	**60,005,843**	51,826,299
Pre-sales deposits		**–**	77,857,359
Contract liabilities	2(d)	**92,984,048**	–
Rental and other deposits		**3,434,417**	3,428,838
Amounts due to fellow subsidiaries	30	**977,998**	756,994
Amounts due to associates	30	**1,867,490**	2,028,855
Amounts due to joint ventures	30	**8,959,739**	5,425,631
Amounts due to non-controlling shareholders	31	**15,121,521**	5,053,174
Tax liabilities		**34,880,729**	29,741,619
Bank and other borrowings – due within one year	33	**14,627,002**	13,324,575
Notes payable – due within one year	34	**16,277,376**	17,099,222
		249,136,163	206,542,566
Net Current Assets		**317,895,989**	295,247,940
Total Assets Less Current Liabilities		**476,204,495**	438,862,219
Capital and Reserves			
Share capital	32	**90,420,438**	90,420,438
Reserves		**193,060,632**	175,273,849
Equity attributable to owners of the Company		**283,481,070**	265,694,287
Non-controlling interests		**10,125,172**	7,849,143
Total Equity		**293,606,242**	273,543,430
Non-current Liabilities			
Bank and other borrowings – due after one year	33	**100,504,152**	90,256,116
Notes payable – due after one year	34	**64,540,446**	57,558,524
Amounts due to non-controlling shareholders	31	**2,013,003**	3,799,801
Deferred tax liabilities	35	**15,540,652**	13,704,348
		182,598,253	165,318,789
		476,204,495	438,862,219

The financial statements on pages 140 to 242 were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital *HK$'000*	Other property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Merger and other reserves *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2017	90,420,438	301,449	25,799	(13,484,719)	(14,105,752)	7,597,154	151,494,073	222,248,442	5,174,917	227,423,359
Profit for the year	–	–	–	–	–	–	40,766,835	40,766,835	1,375,280	42,142,115
Exchange differences on translation of the Company and its subsidiaries	–	–	–	9,360,417	–	–	–	9,360,417	532,389	9,892,806
Exchange differences on translation of associates and joint ventures	–	–	–	1,747,963	–	–	–	1,747,963	–	1,747,963
Total comprehensive income for the year	–	–	–	11,108,380	–	–	40,766,835	51,875,215	1,907,669	53,782,884
2016 final dividend paid	–	–	–	–	–	–	(4,601,605)	(4,601,605)	–	(4,601,605)
2017 interim dividend paid	–	–	–	–	–	–	(3,834,671)	(3,834,671)	–	(3,834,671)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(38,386)	(38,386)
Disposal of subsidiaries	–	–	–	(554)	–	–	554	–	(2,069)	(2,069)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(775,619)	(775,619)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(760,139)	(760,139)
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,342,770	2,342,770
Release of exchange reserve of a joint venture upon acquisition	–	–	–	(171,955)	–	–	171,955	–	–	–
Capital contribution relating to share-based payments borne by an intermediate holding company	–	–	–	–	6,906	–	–	6,906	–	6,906
Transfer to PRC statutory reserve	–	–	–	–	–	2,166,296	(2,166,296)	–	–	–
At 31 December 2017	90,420,438	301,449	25,799	(2,548,848)	(14,098,846)	9,763,450	181,830,845	265,694,287	7,849,143	273,543,430

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital *HK$'000*	Other property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Merger and other reserves *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2018	**90,420,438**	**301,449**	**25,799**	**(2,548,848)**	**(14,098,846)**	**9,763,450**	**181,830,845**	**265,694,287**	**7,849,143**	**273,543,430**
Adjustments on adoption of HKFRS 15, net of tax *(Note 2(a))*	–	–	–	**(176,433)**	–	–	**(4,526,697)**	**(4,703,130)**	**(152,814)**	**(4,855,944)**
Restated balance at 1 January 2018	**90,420,438**	**301,449**	**25,799**	**(2,725,281)**	**(14,098,846)**	**9,763,450**	**177,304,148**	**260,991,157**	**7,696,329**	**268,687,486**
Profit for the year	–	–	–	–	–	–	**44,900,303**	**44,900,303**	**1,801,667**	**46,701,970**
Exchange differences on translation of the Company and its subsidiaries	–	–	–	**(11,758,445)**	–	–	–	**(11,758,445)**	**(648,709)**	**(12,407,154)**
Exchange differences on translation of associates and joint ventures	–	–	–	**(1,453,718)**	–	–	–	**(1,453,718)**	–	**(1,453,718)**
Changes in fair value of investments in syndicated property project companies	–	–	**(17,755)**	–	–	–	–	**(17,755)**	–	**(17,755)**
Total comprehensive income for the year	–	–	**(17,755)**	**(13,212,163)**	–	–	**44,900,303**	**31,670,385**	**1,152,958**	**32,823,343**
2017 final dividend paid	–	–	–	–	–	–	**(4,930,291)**	**(4,930,291)**	–	**(4,930,291)**
2018 interim dividend paid	–	–	–	–	–	–	**(4,382,481)**	**(4,382,481)**	–	**(4,382,481)**
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	**(129,518)**	**(129,518)**
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	**2,453,491**	**2,453,491**
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	**(1,048,088)**	**(1,048,088)**
Equity settled share-based transactions *(Note 32)*	–	–	–	–	**125,307**	–	–	**125,307**	–	**125,307**
Capital contribution relating to share-based payments borne by an intermediate holding company	–	–	–	–	**6,993**	–	–	**6,993**	–	**6,993**
Disposal of investments in syndicated property project companies	–	–	**(8,044)**	–	–	–	**8,044**	–	–	–
Transfer to PRC statutory reserve	–	–	–	–	–	**1,393,628**	**(1,393,628)**	–	–	–
At 31 December 2018	**90,420,438**	**301,449**	–	**(15,937,444)**	**(13,966,546)**	**11,157,078**	**211,506,095**	**283,481,070**	**10,125,172**	**293,606,242**

Note: PRC statutory reserve of the Group represents general and development fund reserve applicable to subsidiaries which was established in accordance with the relevant People's Republic of China ("PRC") regulations.

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**72,568,408**	63,419,299
Adjustments for:		
Share of profits of associates	**(2,207,624)**	(1,164,116)
Share of profits of joint ventures	**(1,214,358)**	(774,352)
Finance costs	**1,585,609**	1,393,544
Depreciation and amortisation	**217,779**	208,458
Interest income	**(1,802,390)**	(1,536,755)
Gain arising from changes in fair value of investment properties	**(10,412,570)**	(5,946,121)
Gain on disposal of investment properties	**(23,265)**	(40,782)
Gain on disposal of subsidiaries	–	(165,865)
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	–	(2,140,171)
Gain on acquisition of subsidiaries	–	(326,267)
Gain on disposal of property, plant and equipment	**(21,625)**	(9,953)
Equity settled share-based payment expenses	**132,300**	6,906
Gain on disposal of available-for-sale investments	–	(8,304)
Gain on disposal of joint ventures	**(2,078)**	(57,088)
Effect of foreign exchange rate changes	**1,718,138**	(2,463,069)
Operating cash flows before movements in working capital	**60,538,324**	50,395,364
(Increase)/decrease in inventories	**(24,719)**	3,262
Increase in stock of properties	**(39,452,464)**	(67,437,830)
Increase in land development expenditure	**(5,861,461)**	(39,301)
Increase in trade and other receivables, deposits and prepayments	**(4,043,871)**	(2,697,651)
Increase in contract assets	**(874,141)**	–
Increase in deposits for land use rights for property development	**(10,076,791)**	(1,783,735)
Increase in restricted bank deposits	**(90,560)**	(2,246,868)
Increase/(decrease) in trade and other payables, contract liabilities, pre-sales deposits, and rental and other deposits	**7,367,348**	(5,613,796)
Cash generated from/(used in) operations	**7,481,665**	(29,420,555)
Income taxes paid	**(15,672,552)**	(12,616,856)
NET CASH USED IN OPERATING ACTIVITIES	**(8,190,887)**	(42,037,411)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
INVESTING ACTIVITIES			
Interest received		**1,562,956**	1,464,270
Dividends received from associates		**725,912**	399,758
Dividends received from joint ventures		**83,144**	508,658
Purchase of property, plant and equipment		**(136,449)**	(63,132)
Additions of investment properties		**(4,818,643)**	(4,567,669)
Increase in amounts due from fellow subsidiaries		**(38,761)**	(76,938)
Repayment from CITIC Group		**195,592**	404,156
Advances to associates		**(5,358,789)**	(6,651,429)
Repayment from associates		**6,932,782**	7,467,646
Acquisition of subsidiaries	38	**–**	(3,007,959)
Advances to joint ventures		**(4,260,969)**	(5,855,752)
Repayment from joint ventures		**1,925,582**	3,170,905
Advances to non-controlling shareholders		**(719,880)**	–
Repayment from non-controlling shareholders		**–**	352,674
Capital contributions to associates		**(3,913,814)**	(1,032,479)
Capital distributions from an associate		**159,364**	–
Capital contributions to joint ventures		**(964,845)**	(932,502)
Capital distributions from joint ventures		**–**	150,602
Net proceeds on disposal of available for sale-investments		**–**	49,363
Net proceeds on disposal of property, plant and equipment		**68,654**	41,867
Net proceeds on disposal of investment properties		**164,265**	199,459
Net cash outflow on disposal of subsidiaries	37	**–**	(161,992)
Net proceeds on disposal of associates and joint ventures		**115,731**	61,044
NET CASH USED IN INVESTING ACTIVITIES		**(8,278,168)**	(8,079,450)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	NOTE	**2018** **HK$'000**	2017 HK$'000
FINANCING ACTIVITIES			
Interest paid		**(8,702,291)**	(7,371,657)
Other finance costs paid		**(223,949)**	(221,183)
Dividends paid to owners of the Company		**(9,312,772)**	(8,436,276)
Dividends paid to non-controlling shareholders		**(1,057,255)**	(717,289)
New bank and other borrowings raised		**27,557,261**	50,199,681
Repayment of bank and other borrowings		**(12,181,528)**	(48,897,982)
Issue of notes		**19,137,071**	–
Redemption of notes		**(11,406,723)**	(5,815,625)
Advances from a fellow subsidiary		**221,004**	108,225
Repayment to fellow subsidiaries		**–**	(29,527)
Contributions from non-controlling shareholders		**2,453,491**	2,342,770
Return of capital to non-controlling shareholders		**(129,518)**	(760,139)
Acquisition of additional interests in subsidiaries		**–**	(64,200)
Advances from associates		**668,593**	529,758
Repayment to associates		**(1,127,525)**	(25,581)
Advances from joint ventures		**4,281,720**	3,179,097
Repayment to joint ventures		**(474,468)**	(75,355)
Advances from non-controlling shareholders		**8,306,646**	3,485,529
Repayment to non-controlling shareholders		**(775,108)**	(570,885)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**17,234,649**	(13,140,639)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**765,594**	(63,257,500)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**99,460,057**	154,983,386
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(4,120,309)**	7,734,171
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**96,105,342**	99,460,057
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**100,555,356**	104,050,615
Less: restricted bank deposits	*28*	**(4,450,014)**	(4,590,558)
		96,105,342	99,460,057

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Company's immediate parent company is China Overseas Holdings Limited ("COHL"), a company incorporated in Hong Kong, and its ultimate holding company is China State Construction Engineering Corporation ("CSCEC"), an entity established in the PRC and the PRC government is a substantial shareholder of CSCEC. The registered office and principal place of business of the Company are situated at 10/F, Three Pacific Place, 1 Queen's Road East, Hong Kong. The Group's business activities are principally carried out in Hong Kong, Macau, Guangzhou, Shanghai, Beijing, Tianjin, Jinan, Foshan, Chengdu, Nanjing, Suzhou and other regions in the PRC.

The Company's functional currency is Renminbi ("RMB"). The financial statements are presented in Hong Kong dollars ("HK$") as the directors of the Company consider that HK$ is the appropriate presentation currency for the users of the Group's financial statements.

The Group, comprising the Company and its subsidiaries, is principally engaged in property development and investment, and treasury operations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards or amendments to HKFRSs issued by the HKICPA which are relevant to the Group:

Amendments to Hong Kong Accounting Standard ("HKAS") 40	*Transfers of Investment Property*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*

Except for the adoption of HKFRS 15, the application of the above new and revised standards or amendments has had no material impact on the Group's results and financial position.

HKFRS 9, *Financial Instruments*

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group adopted HKFRS 9 with effective from 1 January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 9, *Financial Instruments* *(continued)*

The equity investments held by the Group, including available-for-sale investments and investments in syndicated property project companies previously classified as available-for-sale financial assets under HKAS 39, were reclassified as financial assets at fair value through other comprehensive income ("FVOCI") under HKFRS 9. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. At 1 January 2018 and 31 December 2018, the Group assessed the impact of loss allowance under the application of HKFRS 9 was immaterial. Except for the above, the application of HKFRS 9 did not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 1 January 2018 and 31 December 2018.

The application of HKFRS 9 did not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group did not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principle-based approach. Since the Group did not have any hedge relationships currently, the application of HKFRS 9 did not have any impact on the Group's financial statements.

HKFRS 15, *Revenue from Contracts with Customers*

During the current year, the Group adopted HKFRS 15 as issued by the HKICPA. The adoption of HKFRS 15 resulted in changes in accounting policies and adjustments to the amounts of revenue recognised in the consolidated financial statements. HKFRS 15 replaces the provisions of HKAS 18, *Revenue* and HKAS 11, *Construction Contracts* that relate to the recognition, classification and measurement of revenues and costs.

The Group elected to use a modified retrospective approach for transition in the consolidated financial statements for the year ended 31 December 2018, which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018, while prior year comparative figures were not restated. The Group chose to apply HKFRS 15 for its contracts at 1 January 2018.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

The effects of the adoption of HKFRS 15 are as follows:

Accounting for property development activities
In prior reporting periods, the Group recognised revenue from sale of properties when significant risks and rewards of ownership of properties had been transferred to customers at a single time and not continuously as construction progresses.

Under HKFRS 15, the Group determines whether the properties have alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date.

- For properties which have no alternative use to the Group and the Group has no enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied at a point in time when the customer obtains control of the property and the Group satisfies the performance obligations.

  The timing of revenue recognition for sale of certain stock of properties, which was based on whether significant risks and rewards of ownership of properties had been transferred in the past, is now recognised at a point in time when the underlying property is legally or physically transferred to the customer.

- For properties which have no alternative use to the Group and the Group has enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied over time in accordance with the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

  The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Accounting for costs incurred for obtaining a contract
Following the adoption of HKFRS 15, costs such as stamp duty and sales commission incurred directly attributable for obtaining a pre-sale property contract, if recoverable, are capitalised and recorded in contract assets. These expenses were charged to profit or loss as incurred before the adoption of HKFRS 15.

Accounting for significant financing component
For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

Presentation of contract assets and contract liabilities

Reclassifications were made at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- Contract assets in relation to amounts due from customers for contract work under the Group's construction activities were previously presented within trade and other receivables.

- Contract liabilities for progress billings recognised in relation to property development activities were previously presented as pre-sales deposits.

(a) The effects of the adoption of HKFRS 15 on the consolidated statement of financial position at 1 January 2018 are as follows:

	At 1 January 2018			
	As previously stated *HK$'000*	Reclassification under HKFRS 15 *HK$'000*	Adjustments under HKFRS 15 *HK$'000*	Restated *HK$'000*
Consolidated statement of financial position (extract)				
Interests in associates	8,232,345	–	201,789	8,434,134
Deferred tax assets	4,902,484	–	(326,353)	4,576,131
Stock of properties	335,541,563	–	16,657,747	352,199,310
Trade and other receivables	14,300,567	(487,295)	(3,834,750)	9,978,522
Deposits and prepayments	7,240,012	–	29,139	7,269,151
Contract assets	–	487,295	146,373	633,668
Tax prepaid	4,089,095	–	247,069	4,336,164
Trade and other payables	51,826,299	–	(1,906,236)	49,920,063
Pre-sales deposits	77,857,359	(73,089,843)	(4,767,516)	–
Contract liabilities	–	73,089,843	28,546,858	101,636,701
Tax liabilities	29,741,619	–	(4,578,842)	25,162,777
Deferred tax liabilities	13,704,348	–	682,695	14,387,043
Translation reserve	(2,548,848)	–	(176,433)	(2,725,281)
Retained profits	181,830,845	–	(4,526,697)	177,304,148
Non-controlling interests	7,849,143	–	(152,814)	7,696,329

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(b) The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	For the year ended 31 December 2018		
	Amounts before the adoption of HKFRS 15 *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Amounts as reported *HK$'000*
Consolidated income statement (extract)			
Revenue	166,600,010	4,861,049	171,461,059
Business Tax	(1,658,186)	(143,976)	(1,802,162)
Direct operating costs, excluding business tax above	(101,722,349)	(3,133,064)	(104,855,413)
Selling and distribution costs	(2,813,761)	192,011	(2,621,750)
Share of profits of associates	2,079,571	128,053	2,207,624
Share of profits of joint ventures	1,234,879	(20,521)	1,214,358
Income tax expenses	(25,458,275)	(408,163)	(25,866,438)
Profit for the year attributable to:			
– Owners of the Company	43,551,162	1,349,141	44,900,303
– Non-controlling interests	1,675,420	126,247	1,801,667
	HK$	*HK$*	*HK$*
Earnings per share			
Basic and diluted	3.98	0.12	4.10

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(b) The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows: *(continued)*

	At 31 December 2018		
	Amounts before the adoption of HKFRS 15 *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Amounts as reported *HK$'000*
Consolidated statement of financial position (extract)			
Interests in associates	12,724,664	324,359	13,049,023
Interests in joint ventures	13,653,570	(19,723)	13,633,847
Deferred tax assets	6,088,603	(199,767)	5,888,836
Stock of properties	369,483,023	13,325,729	382,808,752
Trade and other receivables	15,455,974	(4,331,166)	11,124,808
Deposits and prepayments	9,423,838	74,398	9,498,236
Contract assets	–	1,491,080	1,491,080
Trade and other payables	61,393,927	(1,388,084)	60,005,843
Pre-sales deposits	74,336,052	(74,336,052)	–
Contract liabilities	–	92,984,048	92,984,048
Tax liabilities	38,987,845	(4,107,116)	34,880,729
Deferred tax liabilities	14,725,202	815,450	15,540,652
Translation reserve	(15,840,696)	(96,748)	(15,937,444)
PRC statutory reserve	11,114,366	42,712	11,157,078
Retained profits	214,726,363	(3,220,268)	211,506,095
Non-controlling interests	10,154,202	(29,030)	10,125,172

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(b) The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows: *(continued)*

	For the year ended 31 December 2018		
	Amounts before the adoption of HKFRS 15 *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Amounts as reported *HK$'000*
Consolidated statement of cash flows (extract)			
OPERATING ACTIVITIES			
Profit before tax	70,684,856	1,883,552	72,568,408
Adjustments for:			
Share of profits of associates	(2,079,571)	(128,053)	(2,207,624)
Share of profits of joint ventures	(1,234,879)	20,521	(1,214,358)
Changes in working capital:			
Stock of properties	(42,040,586)	2,588,122	(39,452,464)
Trade and other receivables, deposits and prepayments	(4,021,116)	(22,755)	(4,043,871)
Contract assets	–	(874,141)	(874,141)
Trade and other payables, contract liabilities, pre-sales deposits, and rental and other deposits	10,834,594	(3,467,246)	7,367,348

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(c) Details of contract assets are as follows:

	31 December 2018 **HK$'000**	1 January 2018 HK$'000
Contract assets related to sales of properties *(Note i)*	**1,309,819**	146,373
Costs for obtaining contracts *(Note ii)*	**181,261**	–
Contract assets related to construction services *(Note i)*	**–**	487,295
Total contract assets	**1,491,080**	633,668

Notes:

(i) Contract assets consist of unbilled amount resulting from sales of properties and construction services when revenue recognised exceeds the amount billed to the customer. Increase in contract assets during the year was in line with the growth of the Group's contracted sales.

(ii) Management expects the incremental costs, primarily sales commission and stamp duty, as a result of obtaining the pre-sale property contracts are recoverable. The Group has capitalised the amounts and amortised when the related revenue are recognised. For the year ended 31 December 2018, the amount of amortisation was insignificant and there was no impairment loss in relation to the costs capitalised.

(d) Details of contract liabilities are as follows:

	31 December 2018 **HK$'000**	1 January 2018 HK$'000
Contract liabilities related to sales of properties	**92,984,048**	101,636,701

The Group receives payments from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts which are mainly from sales of properties.

The following table shows the amount of the revenue recognised in the current reporting period in relation to carried-forward contract liabilities:

	2018 **HK$'000**
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**81,179,558**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(e) Transaction price allocated to the unsatisfied contracts related to sales of properties are as follow:

	2018 ***HK$'000***
Expected to be recognised within one year	**82,668,117**
Expected to be recognised after one year	**33,691,079**
Total transaction price allocated to the unsatisfied contracts at 31 December 2018	**116,359,196**

The Group has not early adopted the following new and revised standards or amendments that have been issued but are not yet effective:

HKFRS 16	*Leases*[1]
Annual Improvement Project	*Annual Improvements 2015–2017 Cycle*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Comparison*[1]
Amendments to HKAS 19	*Employee Benefits*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK (IFRIC) – Int 23	*Uncertainty over Income Tax*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Conceptual Framework for Financial Reporting 2018[2]	
Amendments to HKFRS 3	*Definition of Business*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

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 *The mandatory effective date will be determined*

HKFRS 16, *Leases*

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16, *Leases* *(continued)*

Impact

The standard will affect primarily the accounting for the Group's operating leases. At the end of the reporting period, the Group has non-cancellable operating lease commitments of HK$79,704,000 as disclosed in Note 39. The Group estimates that the leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant. For other leases, the Group expects i) the effect of other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, ii) the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and iii) the impact to the Group's profit or loss and classification of cash flows going forward will not be material.

The Group does not expect any significant impact on the financial statements as a lessor. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for leases will be measured on transition as if the new rules had always been applied.

Except for the above, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

These consolidated financial statements comply with the applicable requirements of Hong Kong Companies Ordinance (Cap. 622), with the exception of Section 381 which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to Cap. 622) in the company's annual consolidated financial statements. Section 381 is inconsistent with the requirements of HKFRS 10, *Consolidated Financial Statements* so far as Section 381 applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of Section 380(6), the Company has departed from Section 381 and has not treated such companies as subsidiaries but they are accounted for in accordance with the accounting policies in Note 3. Those excluded subsidiary undertakings of the Group are disclosed in Note 20.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies

Basis of Consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests
Total comprehensive income of a subsidiary is attributed to owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests and the fair value of the consideration paid or received is recognised directly in retained profits and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9, *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Business combinations – common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interests.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous year end date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Business combinations – acquisition method

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

1. deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12, *Income Taxes* and HKAS 19, *Employee Benefits* respectively;

2. liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2, *Share-based Payment* at the acquisition date (see the accounting policy below); and

3. assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Business combinations – acquisition method (continued)

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9, *Financial Instruments*, or HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Separate Financial Statements

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Cost includes direct attributable costs of investments.

The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Interests in Associates and Joint Ventures

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36, *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence or joint control over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKFRS 9. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture.

If an interest in an associate becomes an interest 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Interests in Associates and Joint Ventures *(continued)*
When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group. When the Group disposes a business to its associate or joint venture, the entire gain or loss on disposal is recognised in profit or loss as a loss of control of a business.

Accounting policies of associates and joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management. The Group's management, who is responsible for resource allocation and assessment of performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

Investment Properties
Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

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

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

For a transfer from stock of properties to investment properties (which is evidenced by commencement of operating leases) that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Property, Plant and Equipment
Property, plant and equipment including land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Property, Plant and Equipment *(continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold Land and Building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Impairment Losses on Tangible and Intangible Assets other than Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Impairment Losses on Tangible and Intangible Assets other than Goodwill *(continued)*
Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial Instruments
Financial Assets
Accounting policies applied since 1 January 2018
Classification
From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied since 1 January 2018 *(continued)*
Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost, which include trade and other receivables, amounts due from subsidiaries, fellow subsidiaries, associates, joint ventures and non-controlling shareholders and bank balances. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses).

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied since 1 January 2018 *(continued)*
Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment
From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on financial assets measured at amortised cost other than trade receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

When there is a significant increase in credit risk or the proceeds receivables are not settled in accordance with the terms stipulated in the agreements, management considers these receivables as underperforming or non-performing and impairment is measured as lifetime expected credit loss.

When management considers that there is no reasonable expectation of recovery, the financial assets measured at amortised cost will be written off.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied until 31 December 2017
The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, fellow subsidiaries, associates, joint ventures and non-controlling shareholders and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVPL, loans and receivables or held-to-maturity investments. Available-for-sale financial assets, comprising investments in syndicated property project companies and available-for-sale investments, are carried at fair value and at cost at the end of the reporting period respectively. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss.

Recognition and measurement
Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied until 31 December 2017 *(continued)*
Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables and deteriorated value in collateral assets.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Liabilities and Equity Instruments

Financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities (including trade and other payables, amounts due to associates, joint ventures, non-controlling shareholders, subsidiaries and fellow subsidiaries, bank and other borrowings and notes payable) are measured at amortised cost, using the effective interest method.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form as integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group or the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group or the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with the expected credit loss model under HKFRS 9, *Financial Instruments*; and (ii) the amount initially recognised less, when appropriate, cumulative amount of income recognised in accordance with the revenue recognition policy in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Inventories

Inventories, representing raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Stock of Properties

Completed properties and properties under development are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other directly attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the Group's subsidiaries had borrowed funds in their functional currencies, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Foreign Currencies *(continued)*
On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

The Group as Lessor
Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as Lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Employee Benefits

(i) Retirement Benefits

The Group participates in mandatory provident fund schemes in Hong Kong which are defined contribution plan generally funded through payments to trustee-administered funds. The assets of the scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in mainland China, the subsidiaries in mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of mainland China is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Group's contributions to the scheme are expensed as incurred.

(ii) Employee Leave Entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iii) Share-based Payments

Incentive Shares Granted by Group's Holding Entities

Incentive shares granted by an intermediate holding company to the employees of the Group are treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

Share Options Granted by the Group

The Group operates a share option scheme, under which the Group receives services from employees as consideration for share options of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Employee Benefits *(continued)*

(iii) Share-based Payments (continued)

Share Options Granted by the Group *(continued)*

Non-market performance and service conditions are included in assumptions about the number of share options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The grant by the Company of equity instruments over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Property Development
Accounting policies applied since 1 January 2018
The Group determines whether the properties have alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date.

- For properties which have no alternative use to the Group and the Group has no enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied at a point in time when the customer obtains control of the property and the Group satisfies the performance obligations.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Revenue Recognition *(continued)*
Property Development (continued)
Accounting policies applied since 1 January 2018 *(continued)*

- For properties which have no alternative use to the Group and the Group has enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied over time in accordance with the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Deposits and instalments received from purchasers prior to meeting the revenue recognition criteria are included in contract liabilities in the consolidated statement of financial position under current liabilities.

Account policies applied until 31 December 2017
Revenue from property development in the ordinary course of business are recognised when all the following criteria are satisfied:

– the significant risks and rewards of ownership of the properties are transferred to the buyers;

– neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group;

– the cost incurred or to be incurred in respect of the transaction can be measured reliably; and

– Deposits and instalments received from purchasers prior to meeting the revenue recognition criteria are included in pre-sales deposits in the consolidated statement of financial position under current liabilities.

Accounting for costs incurred for obtaining a contract
Following the adoption of HKFRS 15, costs such as stamp duty and sales commission incurred directly attributable for obtaining a pre-sale property contract, if recoverable, are capitalised and recorded in contract assets. These expenses were charged to profit or loss as incurred before the adoption of HKFRS 15.

Accounting for significant financing component
For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Revenue Recognition *(continued)*
Construction Contract Income
When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised when or as the construction projects are transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the construction projects may transfer over time or at a point in time. If construction projects have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress.

Hotel Operation, Real Estate Management Services and Building Design Consultancy Services
Revenue from hotel operation, the provision of real estate management services and building design consultancy services is recognised when services are provided.

Property Rentals
Rental income from properties under operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Dividend Income
Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest Income
Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Dividend Distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

For distribution of non-cash assets as a dividend to the Company's shareholders, the Group measures the dividend payable at the fair value of the assets being distributed. When the Group settles the dividend payable, the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Fair Value of Investment Properties

Investment properties are carried at 31 December 2018 at their fair values of HK$111,574,402,000 (2017: HK$97,377,389,000). The fair values were based on a valuation on these properties conducted by independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss recognised in profit or loss.

(b) Impairment of Property Portfolio Held by the Group's Associates and Joint Ventures

Management assessed the recoverability of the Group's net investments in a listed associate, unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects in the PRC with carrying amounts of HK$8,026,683,000 (2017: HK$10,268,329,000), HK$17,078,934,000 (2017: HK$11,617,794,000) and HK$23,306,669,000 (2017: HK$21,289,637,000) respectively included in the consolidated statement of financial position at 31 December 2018.

The assessment on unlisted associates and joint ventures was based on an estimation of the net realisable value of the underlying properties of the associates and joint ventures which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

The recoverable amount of the investment in the listed associate is evaluated based on the performance and financial position of the associate, and return on investments including the listed associate's share price performance and dividend yield.

Judgement is required in assessing the ultimate recoverability of the investment.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(c) Impairment of Stock of Properties

Included in the consolidated statement of financial position at 31 December 2018 is stock of properties with an aggregate carrying amount of HK$382,808,752,000 (2017: HK$335,541,563,000). Management assessed the recoverability of the amount based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying stock of properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

(d) Land Appreciation Tax ("LAT")

LAT is levied on the appreciation of land value, being the proceeds from the sales of properties less deductible expenditure including land costs, borrowing costs and all property development expenditure.

The subsidiaries engaging in property development business in the PRC are subject to LAT, which have been included in the tax expenses. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the tax expense and provisions for LAT in the period in which such determination is made.

(e) Revenue Recognition

Revenue from property development activities is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognised at a point in time. The properties contracted for pre-sale to customers have generally no alternative use for the Group due to contractual restrictions. However, whether there is an enforceable right to payment and hence the related contract revenue should be recognised over time depends on the terms of each contract and the relevant laws that apply to that contract. Judgement is required in such determination.

For property development revenue that is recognised over time, the Group recognises such property development revenue by reference to the progress of satisfying the performance obligation at the reporting date. This is measured based on the Group's costs incurred up to the reporting date and budgeted costs which depict the Group's performance towards satisfying the performance obligation. Judgements are required in the determination in these estimates, such as the accuracy of the budgets, the extent of the costs incurred and the allocation of costs to each property unit.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which mainly includes bank and other borrowings and notes payable disclosed in Notes 33 and 34 respectively, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company assess budgets of major projects taking into account of the provision of funding. Based on the operating budgets, the directors of the Company consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group actively reviews and monitors its capital structure on a regular basis to maintain a healthy net gearing ratio. For this purpose the Group defines net debt as total debt less bank balances and cash. Equity attributable to owners of the Company comprise share capital and reserves attributable to the Company's owners as shown in the consolidated statement of financial position.

The net gearing ratio at the end of the reporting period were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Bank and other borrowings	**115,131,154**	103,580,691
Notes payable	**80,817,822**	74,657,746
Total debt	**195,948,976**	178,238,437
Less: Bank balances and cash	**(100,555,356)**	(104,050,615)
Net debt	**95,393,620**	74,187,822
Equity attributable to owners of the Company	**283,481,070**	265,694,287
Net gearing ratio	**33.7%**	27.9%

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS

Details of significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3.

a. Categories of Financial Instruments

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables at amortised cost (including bank balances and cash)	**138,500,439**	144,147,511
Available-for-sale financial assets (including investments in syndicated property project companies and available-for-sale investments)	**–**	140,054
Financial liabilities		
Liabilities at amortised cost	**284,894,570**	247,129,191

b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include bank and other borrowings, notes payable, trade and other receivables, trade and other payables, amounts due from/to affiliated companies and bank balances. Details of the financial instruments are disclosed in respective notes.

Management monitors and manages the financial risks relating to the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and currency risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's exposure to these kinds of risks or the manner in which it manages and measures these risks.

(i) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and changes in foreign exchange rates.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) Market risk *(continued)*

Interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures amounting to HK$95,895,616,000 (2017: HK$86,296,354,000), HK$3,452,992,000 (2017: HK$2,112,253,000) and HK$7,231,150,000 (2017: HK$12,538,221,000), respectively. The variable-rate bank and other borrowings with original maturities from one to more than ten years are for financing development of property projects. Increase in interest rates would increase interest expenses. Management monitors interest rate exposure on dynamic basis and will consider hedging significant interest rate exposure should the need arise. Management considers the exposure to interest rate risk in relation to bank deposits is insignificant due to the low level of bank interest rate.

The Group's fair value interest rate risk relates primarily to its corresponding fixed-rate bank and other borrowings, notes payable, amounts due to associates, joint ventures, non-controlling shareholders and fellow subsidiaries, and amounts due from associates, joint ventures and non-controlling shareholders amounting to HK$19,235,538,000 (2017: HK$17,284,337,000), HK$80,817,822,000 (2017: HK$74,657,746,000), HK$9,171,956,000 (2017: HK$5,244,251,000) and HK$5,593,627,000 (2017: HK$Nil), respectively. Management will also consider hedging significant interest rate exposure should the need arise.

Interest rate risk sensitivity analysis

The analysis is prepared assuming the amount of assets/liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (2017: 100) basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year would decrease/increase by HK$92,182,000 (2017: HK$38,963,000) after capitalising finance costs in properties under development and investment properties under construction of HK$825,112,000 (2017: HK$719,741,000). This is mainly attributable to the Group's exposure to cash flow interest rates on its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The Group's assets are mainly RMB-denominated assets, however, HK$-denominated bank borrowings, British Pound-denominated bank borrowings, US$-denominated and Euro-denominated notes payable in aggregate account for 50.1% of the Group's interest bearing debts. Taking into consideration that RMB is still subject to volatility in the short-term but would become stable in the medium term, the foreign exchange risk should be short-term and relatively controllable. Management manages its foreign currency risk by closely reviewing the movement of the foreign currency rates and considers hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) Market risk *(continued)*

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	2018 **HK$'000**	2017 HK$'000
Assets		
HK$	**4,751,865**	13,255,870
United States dollars ("US$")	**4,658,929**	6,720,415
British Pound ("GBP")	**630,520**	–
Liabilities		
HK$	**37,033,940**	35,066,100
US$	**50,248,200**	42,459,040
Euro ("EUR")	**8,942,881**	9,337,762

Currency risk sensitivity analysis

The Group mainly exposes to the currency risk of US$, HK$ and EUR. The following details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in the functional currencies of group entities against US$, HK$ and EUR respectively. 5% (2017: 5%) is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable in currencies other than the functional currencies of the group entities.

For a 5% (2017: 5%) decrease of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would decrease by HK$3,485,882,000 (2017: HK$2,707,105,000) after increase in capitalising of exchange losses in properties under development of HK$209,797,000 (2017: HK$Nil).

For a 5% (2017: 5%) increase of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would increase by HK$2,852,995,000 (2017: HK$2,459,529,000) after decrease in capitalising of exchange losses in properties under development of HK$842,684,000 (2017: HK$247,576,000).

This is mainly attributable to the Group's exposure to outstanding amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(ii) Credit risk

At 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group are arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amounts of financial guarantees issued by the Group as disclosed in Note 41.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

For the trade receivables arising from sales of properties, the Group managed the credit risk by fully receiving cash or properly arranging the purchasers' mortgage loans financing procedures before delivery of properties unless strong credit records of the customers could be established. The Group closely monitors the collection of progress payments from customers in accordance with payment schedule agreed with customers. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments.

Meanwhile, the Group has monitoring procedures to ensure that follow-up actions are taken to recover overdue balances. In addition, the Group regularly reviews the recoverable amount of each individual trade receivables to ensure that adequate impairment provisions are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

For other receivables, amounts due from associates, joint ventures and non-controlling shareholders, the Group does not have any other significant concentration of credit risk. The Group would closely monitor the financial positions including the net assets backing of the associates, joint ventures and non-controlling shareholders, which are mainly engaged in property development business in Hong Kong and the PRC and their property development projects are profitable. Based on the above assessment, management considered that the expected credit loss is minimal and the directors are of the opinion that the risk of default by counterparties is low.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on bank and other borrowings and notes payable as a significant source of liquidity. At 31 December 2018, the Group maintains substantial undrawn committed revolving banking facilities to allow for flexibility in meeting its funding requirements.

The following table analyses the contractual undiscounted cash flows of the Group's financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the earliest date the Group is required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from flat rate at the end of the reporting period. The undiscounted amounts are subject to changes if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018						
Trade and other payables	**55,763,481**	**3,253,060**	**893,944**	**95,358**	**60,005,843**	**60,005,843**
Amounts due to fellow subsidiaries	**1,017,245**	–	–	–	**1,017,245**	**977,998**
Amounts due to associates	**1,888,150**	–	–	–	**1,888,150**	**1,867,490**
Amounts due to joint ventures	**9,006,796**	–	–	–	**9,006,796**	**8,959,739**
Amounts due to non-controlling shareholders	**15,687,106**	**2,152,238**	–	–	**17,839,344**	**17,134,524**
Bank and other borrowings	**19,570,417**	**39,132,313**	**64,901,944**	**4,612,678**	**128,217,352**	**115,131,154**
Notes payable	**18,044,979**	**12,155,202**	**37,223,740**	**37,313,101**	**104,737,022**	**80,817,822**
Financial guarantee contracts	**46,353,084**	**200,169**	**1,871,317**	–	**48,424,570**	–
	167,331,258	**56,892,982**	**104,890,945**	**42,021,137**	**371,136,322**	**284,894,570**
At 31 December 2017						
Trade and other payables	47,193,450	3,213,744	1,331,815	87,290	51,826,299	51,826,299
Amounts due to fellow subsidiaries	756,994	–	–	–	756,994	756,994
Amounts due to associates	2,033,114	–	–	–	2,033,114	2,028,855
Amounts due to joint ventures	5,436,991	–	–	–	5,436,991	5,425,631
Amounts due to non-controlling shareholders	5,413,282	4,048,307	–	–	9,461,589	8,852,975
Bank and other borrowings	17,450,074	14,147,476	81,715,541	3,206,051	116,519,142	103,580,691
Notes payable	6,686,611	21,258,516	35,471,186	39,533,698	102,950,011	74,657,746
Financial guarantee contracts	51,740,067	1,200,000	916,092	–	53,856,159	–
	136,710,583	43,868,043	119,434,634	42,827,039	342,840,299	247,129,191

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(iii) Liquidity risk *(continued)*

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amounts if that amounts are claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subjected to change depending on the probability of the counterparty claiming under the guarantee that the guaranteed financial receivables held by the counterparty suffers credit losses.

c. Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial guarantee contracts are determined using discounted cash flow models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss given the default; and

- The fair values of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Other than the notes payable as disclosed in Note 34, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

7. REVENUE

Revenue comprises sales from property development activities, property rentals and income from other operations. An analysis of the Group's revenue for the year is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Sales from property development activities	**167,036,568**	162,139,770
Property rentals	**3,533,516**	2,450,060
Others *(Note)*	**890,975**	1,455,133
Revenue	**171,461,059**	166,044,963
Business tax	**(1,802,162)**	(2,072,793)
Net revenue	**169,658,897**	163,972,170

Note: Others mainly comprise revenues from hotel operation, provision of real estate management services, and construction and building design consultancy services.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's management for the purposes of resources allocation and performance assessment. The Group's operating and reportable segments under HKFRS 8 and the types of revenue are as follows:

Property development	–	sales from property development activities
Property investment	–	property rentals
Other operations	–	revenue from hotel operation, provision of real estate management services, and construction and building design consultancy services

Segment Revenue and Results

The following is an analysis of the Group's revenue and results (including share of results of associates and joint ventures) by reportable segments:

Year ended 31 December 2018

	Property development *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Segment total** *HK$'000*
Revenue from contracts with customers				
– Recognised at a point in time	**141,944,667**	**–**	**–**	**141,944,667**
– Recognised over time	**25,091,901**	**–**	**890,975**	**25,982,876**
	167,036,568	**–**	**890,975**	**167,927,543**
Revenue from other sources				
– Rental income	**–**	**3,533,516**	**–**	**3,533,516**
Segment revenue	**167,036,568**	**3,533,516**	**890,975**	**171,461,059**
Business tax	**(1,738,870)**	**(45,867)**	**(17,425)**	**(1,802,162)**
Net revenue – External	**165,297,698**	**3,487,649**	**873,550**	**169,658,897**
Segment profit (including share of profits of associates and joint ventures)	**62,518,897**	**12,460,835**	**94,959**	**75,074,691**

Year ended 31 December 2017

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment revenue				
– from external customers	162,139,770	2,450,060	1,455,133	166,044,963
Business tax	(2,023,024)	(39,582)	(10,187)	(2,072,793)
Net revenue	160,116,746	2,410,478	1,444,946	163,972,170
Segment profit (including share of profits of associates and joint ventures)	51,445,746	10,000,620	273,085	61,719,451

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Segment Revenue and Results *(continued)*

Reconciliation of reportable segment profits to the consolidated profit before tax

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

Segment profits include profits from subsidiaries and share of profits of associates and joint ventures. This represents the profit earned by each segment without allocation of interest income on bank deposits, corporate expenses, finance costs and net foreign exchange (losses)/gains recognised in the consolidated income statement. This is the measure reported to management of the Group for the purposes of resources allocation and performance assessment.

	2018 *HK$'000*	2017 *HK$'000*
Reportable segment profits	**75,074,691**	61,719,451
Unallocated items:		
Interest income on bank deposits	**1,325,088**	1,155,549
Corporate expenses	**(527,624)**	(525,226)
Finance costs	**(1,585,609)**	(1,393,544)
Net foreign exchange (losses)/gains (charged)/credited to the consolidated income statement	**(1,718,138)**	2,463,069
Consolidated profit before tax	**72,568,408**	63,419,299

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

At 31 December 2018

	Property development *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Segment total** *HK$'000*
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	**510,114,769**	**112,545,545**	**2,124,988**	**624,785,302**
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	**(217,199,308)**	**(14,802,801)**	**(3,783,331)**	**(235,785,440)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 December 2017

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	438,739,799	98,197,287	4,417,084	541,354,170
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	(176,079,192)	(12,645,880)	(4,897,846)	(193,622,918)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than bank balances and cash; and
- all liabilities are allocated to reportable segments other than bank and other borrowings and notes payable.

	2018 ***HK$'000***	2017 *HK$'000*
Reportable segment assets	**624,785,302**	541,354,170
Unallocated items:		
Bank balances and cash	**100,555,356**	104,050,615
Consolidated total assets	**725,340,658**	645,404,785
Reportable segment liabilities	**(235,785,440)**	(193,622,918)
Unallocated items:		
Bank and other borrowings	**(115,131,154)**	(103,580,691)
Notes payable	**(80,817,822)**	(74,657,746)
Consolidated total liabilities	**(431,734,416)**	(371,861,355)

Notes:

(a) *Segment assets include interests in and amounts due from associates of HK$13,049,023,000 (2017: HK$8,232,345,000) and HK$12,676,787,000 (2017: HK$14,478,488,000) and interests in and amounts due from joint ventures of HK$13,633,847,000 (2017: HK$12,405,070,000) and HK$11,995,765,000 (2017: HK$9,578,197,000) respectively.*

(b) *Segment liabilities include amounts due to associates and joint ventures of HK$1,867,490,000 (2017: HK$2,028,855,000) and HK$8,959,739,000 (2017: HK$5,425,631,000) respectively.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Other Segment Information

Year ended 31 December 2018

	Property development *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Consolidated** *HK$'000*
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	**110,664**	**4,820,182**	**24,246**	**4,955,092**
Gain/(loss) on disposal of property, plant and equipment	**17,996**	**(3,482)**	**7,111**	**21,625**
Gain on disposal of investment properties	**–**	**23,265**	**–**	**23,265**
Depreciation and amortisation	**170,689**	**1,429**	**45,661**	**217,779**
Gain arising from changes in fair value of investment properties	**–**	**10,412,570**	**–**	**10,412,570**
Interest income on amounts due from associates, joint ventures and non-controlling shareholders	**464,700**	**–**	**–**	**464,700**
Share of profits of associates	**2,207,624**	**–**	**–**	**2,207,624**
Share of profits of joint ventures	**1,095,814**	**118,544**	**–**	**1,214,358**

Year ended 31 December 2017

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	49,606	4,568,227	12,968	4,630,801
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	–	2,140,171	–	2,140,171
Gain on acquisition of subsidiaries	–	326,267	–	326,267
Gain on disposal of property, plant and equipment	9,298	210	445	9,953
Gain on disposal of investment properties	–	40,782	–	40,782
Depreciation and amortisation	140,655	1,829	65,974	208,458
Gain arising from changes in fair value of investment properties	–	5,946,121	–	5,946,121
Interest income on amounts due from associates and joint ventures	318,206	–	–	318,206
Share of profits of associates	1,164,116	–	–	1,164,116
Share of profits of joint ventures	774,352	–	–	774,352

Note: Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Revenue from Major Products and Services

An analysis of the Group's revenue for the year from its major products and services is set out in Note 7.

Information about Geographical Areas

The Group's property development, property investment and other operations are carried out in Hong Kong, Macau, other regions in the PRC and the United Kingdom. The following table provides a geographical analysis of the Group's revenue from external customers (based on where the products and services are delivered or provided) and non-current assets (based on the location of assets).

	Revenue by geographical market		**Non-current assets** *(Note)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC				
Hua Nan Region	**44,116,148**	50,320,061	**16,952,609**	15,660,762
Hua Dong Region	**33,508,788**	26,651,123	**25,943,141**	21,676,621
Hua Bei Region	**31,658,797**	41,851,598	**47,248,913**	40,247,831
Northern Region	**35,255,450**	22,511,398	**3,034,948**	2,982,510
Western Region	**19,045,415**	10,809,107	**12,620,078**	11,384,651
Hong Kong and Macau	**7,477,413**	13,521,090	**3,325,635**	2,845,505
The United Kingdom	**399,048**	380,586	**6,711,488**	7,117,440
	171,461,059	166,044,963	**115,836,812**	101,915,320
Business tax	**(1,802,162)**	(2,072,793)	**–**	–
	169,658,897	163,972,170	**115,836,812**	101,915,320

Note: Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.

Information about Major Customers

There was no customer who accounted for over 10% of the Group's revenue for both years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9. OTHER INCOME AND GAINS, NET

	2018 HK$'000	2017 HK$'000
Other income and gains, net include:		
Interest income on bank deposits	**1,325,088**	1,155,549
Interest income on amounts due from associates, joint ventures and non-controlling shareholders	**464,700**	381,206
Other interest income	**12,602**	–
Total interest income	**1,802,390**	1,536,755
Income from primary land development *(Note 24)*	**417,594**	835,512
Gain on disposal of property, plant and equipment	**21,625**	9,953
Net foreign exchange (losses)/gains	**(2,863,724)**	2,138,825
Add: Exchange losses arising from foreign currency borrowings capitalised	**1,145,586**	324,244
Net foreign exchange (losses)/gains recognised in the consolidated income statement	**(1,718,138)**	2,463,069

10. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank and other borrowings and notes payable	**8,605,465**	7,388,248
Interest on amounts due to non-controlling shareholders	**564,889**	–
Other finance costs	**185,499**	106,620
Total finance costs	**9,355,853**	7,494,868
Less: Amount capitalised	**(7,770,244)**	(6,101,324)
	1,585,609	1,393,544

Finance costs capitalised during the year are calculated by applying a weighted average capitalisation rate of 4.17% (2017: 3.71%) per annum to expenditure on qualifying assets including the effect of capitalisation of exchange losses (Note 9).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11. INCOME TAX EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
PRC Corporate Income Tax ("CIT")	**13,612,892**	10,976,364
LAT	**11,463,969**	9,433,927
PRC withholding income tax	**12,725**	145,716
Hong Kong profits tax	**177,466**	300,930
Macau income tax	**271,917**	42,854
Others	**9,391**	7,887
	25,548,360	20,907,678
Under/(over)-provision in prior years:		
CIT	**–**	(1,379)
Hong Kong profits tax	**2,817**	37,872
Macau income tax	**–**	(2,522)
	2,817	33,971
Deferred tax *(Note 35)*:		
Current year	**315,261**	335,535
Total	**25,866,438**	21,277,184

Under the Law of PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of PRC subsidiaries is 25% (2017: 25%).

The provision for LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the year. Macau income tax is calculated at the prevailing tax rate of 12% (2017: 12%) in Macau.

Details of deferred tax are set out in Note 35.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11. INCOME TAX EXPENSES *(continued)*

The income tax expenses for the year are reconciled to the profit before tax per the consolidated income statement as follows:

	2018	2017
	HK$'000	*HK$'000*
Profit before tax	**72,568,408**	63,419,299
Tax at the applicable tax rate of 25% (2017: 25%)	**18,142,102**	15,854,825
PRC withholding income tax	**12,725**	145,716
LAT	**11,463,969**	9,433,927
Tax effect of LAT	**(2,865,992)**	(2,358,482)
Tax effect of share of results of associates and joint ventures	**(855,496)**	(484,617)
Tax effect of expenses not deductible for tax purpose	**1,144,763**	353,629
Tax effect of income not taxable for tax purpose	**(102,602)**	(1,551,545)
Under-provision in prior years	**2,817**	33,971
Tax effect of tax losses not recognised	**450,694**	537,145
Utilisation of tax losses previously not recognised	**(558,326)**	(516,361)
Recognition of previously unrecognised tax losses	**(317,950)**	–
Effect of different tax rates	**(423,507)**	(213,538)
Others	**(226,759)**	42,514
Income tax expenses for the year	**25,866,438**	21,277,184

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

12. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging/(crediting):		
Auditors' remuneration		
Audit services	**12,390**	11,940
Non-audit services	**2,644**	1,264
	15,034	13,204
Business tax	**1,802,162**	2,072,793
Depreciation of property, plant and equipment	**201,913**	192,453
Amortisation of prepaid lease payments for land	**15,866**	16,005
Staff costs including benefits and interests of directors *(Note)*	**2,882,772**	3,047,021
Rental expenses in respect of land and buildings under operating leases	**76,456**	78,071
Share of tax of		
Associates	**1,635,096**	822,745
Joint ventures	**1,008,617**	318,249
Cost of stock of properties recognised as expenses	**103,477,307**	108,245,542
Cost of inventories recognised as expenses	**491,318**	356,294
Rental income in respect of investment properties under operating leases, net of outgoings of HK$615,166,000 (2017: HK$445,488,000)	**(2,872,460)**	(1,964,990)

Note: During the year ended 31 December 2018, expenses incurred in respect of the Share Option Schemes and A-shares Restricted Stock Incentive Plan (Note 32) were HK$125,307,000 and HK$6,993,000 (2017: HK$Nil and HK$6,906,000) respectively, which have been included in the staff costs as disclosed above.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees.

The employees of the Group's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme.

The total cost for retirement schemes recognised in the consolidated income statement of HK$123,917,000 (2017: HK$120,571,000), which has been included in staff costs disclosed above, represents contributions payable to the schemes by the Group in respect of the current accounting period.

Contributions totaling HK$3,962,000 (2017: HK$6,743,000) were payable to the schemes at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. BENEFITS AND INTERESTS OF DIRECTORS

		Year ended 31 December 2018 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *(Note (v))* *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Yan Jianguo	*(ii)*	–	**4,900**	**1,588**	**18**	**6,506**
Luo Liang		–	**2,741**	**9,086**	**299**	**12,126**
Guo Guanghui	*(iv)*	–	**1,155**	**4,065**	**132**	**5,352**
Nip Yun Wing	*(iii)*	–	**1,443**	**900**	**6**	**2,349**
Non-executive Director						
Chang Ying		**300**	–	–	–	**300**
Independent Non-executive Directors						
Li Man Bun, Brian David		**500**	–	–	–	**500**
Lam Kwong Siu		**500**	–	–	–	**500**
Fan Hsu Lai Tai, Rita		**500**	–	–	–	**500**
		1,800	**10,239**	**15,639**	**455**	**28,133**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

		Year ended 31 December 2017 As director				
	Notes	Directors' fees HK$'000	Basic salaries, allowances and benefits-in-kind *(Note (v))* HK$'000	Performance related bonus HK$'000	Contributions to provident HK$'000	Total HK$'000
Executive Directors						
Yan Jianguo	*(ii)*	–	4,184	1,000	16	5,200
Xiao Xiao	*(i)*	–	1,666	1,497	9	3,172
Luo Liang		–	2,324	7,070	18	9,412
Nip Yun Wing	*(iii)*	–	3,348	2,350	18	5,716
Non-executive Director						
Chang Ying		300	–	–	–	300
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,800	11,522	11,917	61	25,300

Notes:

(i) *Mr. Xiao resigned as the Chief Executive Officer effective from 1 January 2017 and then resigned as the Chairman and an Executive Director effective from 13 June 2017.*

(ii) *Mr. Yan was appointed as an Executive Director and the Chief Executive Officer of the Company effective from 1 January 2017. Mr. Yan was also appointed as the Chairman of the Company effective from 13 June 2017.*

(iii) *Resigned effective from 3 April 2018.*

(iv) *Appointed effective from 12 June 2018.*

(v) *Allowances and benefits-in-kind include housing allowance and non-cash benefits including expense incurred in respect of the annual leave in lieu.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

The performance related bonus was determined based on the Group's performance for the year.

Of the five individuals with the highest emoluments in the Group, one (2017: one) was a director of the Company whose emoluments are included above. The emoluments of the remaining four (2017: four) individuals were set out in Note 43(b).

No directors waived any emoluments in both years ended 31 December 2018 and 2017.

In addition to the benefits and interests as disclosed in the table above, during the year ended 31 December 2018, Mr. Nip Yun Wing received HK$800,000 (2017: HK$Nil) as compensation for restrictive covenant for employment by a competitive business within three years after his resignation as a director of the Company.

Save as disclosed above, no directors received any emoluments as inducement to join or upon joining the Company or as compensation for loss of office in both years ended 31 December 2018 and 2017.

During the year, Messrs Yan Jianguo and Luo Liang held directorships in CSCEC, and/or its subsidiaries/associated companies, which engaged in construction, property development and property investment and related businesses.

Save as disclosed above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during both years ended 31 December 2018 and 2017.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018 ***HK$'000***	2017 *HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**44,900,303**	40,766,835

	2018 ***'000***	2017 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of the calculation of basic and diluted earnings per share	**10,956,201**	10,956,201

Diluted earnings per share were the same as the basic earnings per share for the year ended 31 December 2018 and 2017 as there were no dilutive potential ordinary shares in existence during the years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

15. DIVIDENDS

	2018 **HK$'000**	2017 *HK$'000*
Dividends recognised as distributions during the year		
Interim dividend paid in respect of financial year ended 31 December 2018 of HK40 cents per share (2017: interim dividend of HK35 cents per share for the financial year ended 31 December 2017)	**4,382,481**	3,834,671
Final dividend paid in respect of financial year ended 31 December 2017 of HK45 cents per share (2017: final dividend of HK42 cents per share for the financial year ended 31 December 2016)	**4,930,291**	4,601,605
	9,312,772	8,436,276

The final dividend of HK50 cents per share in respect of the financial year ended 31 December 2018 (2017: final dividend of HK45 cents per share in respect of the financial year ended 31 December 2017), amounting to HK$5,478,100,000 (2017: HK$4,930,291,000) has been proposed by the Board and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed, which was calculated based on the number of ordinary shares in issue at the date of approval of the consolidated financial statements, has not been recognised as a liability in the consolidated financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES

	Completed			Under construction	
	The PRC *HK$'000*	**Hong Kong & Macau** *HK$'000*	**The United Kingdom** *HK$'000*	**The PRC** *HK$'000*	**Total** *HK$'000*
FAIR VALUE					
At 1 January 2017	46,150,651	2,323,300	6,436,700	12,182,530	67,093,181
Additions	27,023	–	–	4,540,646	4,567,669
Gain arising from changes in fair value of investment properties	4,590,080	166,200	–	1,189,841	5,946,121
Transfer upon completion	4,905,340	–	–	(4,905,340)	–
Transfer from stock of properties	3,839,687	–	–	401,311	4,240,998
Disposals	(264,957)	(10,000)	–	–	(274,957)
Acquisition of subsidiaries *(Note 38)*	9,780,396	–	–	–	9,780,396
Exchange realignment	4,546,206	–	680,740	797,035	6,023,981
At 31 December 2017	73,574,426	2,479,500	7,117,440	14,206,023	97,377,389
Additions	**367,763**	**648**	**–**	**4,450,232**	**4,818,643**
Gain arising from changes in fair value of investment properties	**4,184,628**	**301,420**	**12,300**	**5,914,222**	**10,412,570**
Transfer upon completion	**2,394,596**	**–**	**–**	**(2,394,596)**	**–**
Transfer from stock of properties	**–**	**323,032**	**–**	**4,357,524**	**4,680,556**
Disposals	**(53,301)**	**(141,000)**	**–**	**–**	**(194,301)**
Exchange realignment	**(3,925,777)**	**–**	**(418,252)**	**(1,176,426)**	**(5,520,455)**
At 31 December 2018	**76,542,335**	**2,963,600**	**6,711,488**	**25,356,979**	**111,574,402**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(continued)*

Valuation Processes of the Group

The fair values of the investment properties held by the Group at 31 December 2018 have been arrived on the basis of a valuation carried out on that date by Cushman & Wakefield Limited and CBRE Limited.

The valuers mentioned above are independent firms of professional valuers not connected with the Group, who have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The Group's finance team reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least twice a year.

At each financial year end the finance team:

- Verifies all major inputs to the independent valuation report;

- Assesses property valuations movements when compared to the prior year valuation report; and

- Holds discussions with the independent valuers.

All of the Group's investment properties held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Fair Value Measurements Using Significant Unobservable Inputs

The valuation for completed investment properties was arrived at by considering the capitalised income derived from the existing tenancies and the reversionary potential of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The valuation for investment properties under construction was arrived at by making reference to comparable selling prices, as available in the relevant market. The estimated construction costs to complete the development and estimated developer's profits at the date of valuation are also taken into account.

There was no change to the valuation techniques during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs

Description	Fair value at 31 December 2018 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	25,356,979	Residual method	Estimated selling prices	RMB8,200 – RMB84,000 per square meter
			Estimated costs to completion	RMB1,900 – RMB10,300 per square meter
			Estimated developer's profits	5.0% – 26.0%
Completed investment properties in the PRC	76,542,335	Investment approach	Prevailing market rents	RMB18 – RMB920 per square meter per month
			Reversionary yield	3.5% – 8.25%
Completed investment properties in Hong Kong and Macau	2,963,600	Investment approach	Prevailing market rents	HK$14 – HK$400 per square foot per month
			Reversionary yield	2.1% – 4.0%
Completed investment properties in the United Kingdom	6,711,488	Investment approach	Prevailing market rents	GBP45 – GBP65 per square foot per year
			Capitalisation rate	4.4% – 5.0%

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs *(continued)*

Description	Fair value at 31 December 2017 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	14,206,023	Residual method	Estimated selling prices	RMB8,000 – RMB80,000 per square meter
			Estimated costs to completion	RMB3,100 – RMB7,900 per square meter
			Estimated developer's profits	7.0% – 28.0%
Completed investment properties in the PRC	73,574,426	Investment approach	Prevailing market rents	RMB18 – RMB797 per square meter per month
			Reversionary yield	4.0% – 8.25%
Completed investment properties in Hong Kong and Macau	2,479,500	Investment approach	Prevailing market rents	HK$15 – HK$400 per square foot per month
			Reversionary yield	2.1% – 4.3%
Completed investment properties in the United Kingdom	7,117,440	Investment approach	Prevailing market rents	GBP43 – GBP63 per square foot per year
			Capitalisation rate	4.4% – 4.9%

Estimated costs to completion and developer's profit required are estimated by the independent valuers based on market conditions at the end of the reporting period. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The lower the costs and developer's profits, the higher the fair value.

Estimated selling prices and prevailing market rents are estimated based on the independent valuers' view of recent lettings or selling transactions within the subject properties and other comparable properties. The higher the selling prices and rents, the higher the fair value.

Reversionary yield and capitalisation rate are estimated by the independent valuers based on the risk profile of the properties being valued and the market conditions. The lower the yield and capitalisation rate, the higher the fair value.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Hotel buildings *HK$'000*	Plant, machinery and equipment *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Total *HK$'000*
COST					
At 1 January 2017	2,029,460	2,190,231	375,377	803,736	5,398,804
Additions	6,959	15,966	9,758	30,449	63,132
Acquisition of subsidiaries *(Note 38)*	–	–	–	286	286
Disposals	(27,410)	–	(16,133)	(57,601)	(101,144)
Disposal of subsidiaries *(Note 37)*	–	–	(3,674)	(50,303)	(53,977)
Exchange realignment	66,907	144,524	25,412	52,605	289,448
At 31 December 2017	2,075,916	2,350,721	390,740	779,172	5,596,549
Additions	**33,627**	**25,137**	**4,842**	**72,843**	**136,449**
Transfer from stock of properties	**3,314**	**–**	**–**	**–**	**3,314**
Disposals	**(37,533)**	**–**	**(2,279)**	**(70,439)**	**(110,251)**
Exchange realignment	**(47,170)**	**(104,530)**	**(17,969)**	**(35,800)**	**(205,469)**
At 31 December 2018	**2,028,154**	**2,271,328**	**375,334**	**745,776**	**5,420,592**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold land and buildings	Hotel buildings	Plant, machinery and equipment	Furniture, fixtures, office equipment and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
DEPRECIATION					
At 1 January 2017	271,086	448,894	198,785	593,532	1,512,297
Provided for the year	35,181	42,798	27,197	87,277	192,453
Eliminated on disposals	(4,369)	–	(14,679)	(50,182)	(69,230)
Disposal of subsidiaries *(Note 37)*	–	–	(3,104)	(40,577)	(43,681)
Exchange realignment	15,414	36,830	12,713	42,157	107,114
At 31 December 2017	317,312	528,522	220,912	632,207	1,698,953
Provided for the year	**69,280**	**57,758**	**26,921**	**47,954**	**201,913**
Eliminated on disposals	**(133)**	**–**	**(2,560)**	**(60,528)**	**(63,221)**
Exchange realignment	**(14,465)**	**(29,793)**	**(10,268)**	**(28,797)**	**(83,323)**
At 31 December 2018	**371,994**	**556,487**	**235,005**	**590,836**	**1,754,322**
CARRYING VALUES					
At 31 December 2018	**1,656,160**	**1,714,841**	**140,329**	**154,940**	**3,666,270**
At 31 December 2017	1,758,604	1,822,199	169,828	146,965	3,897,596

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land in Hong Kong	Over the lease terms
Leasehold land and buildings	Over the shorter of the term of the relevant lease or 25 years
Hotel buildings	20 years or over the remaining lease terms
Plant, machinery and equipment	3 to 10 years
Other assets	3 to 8 years

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

18. PREPAID LEASE PAYMENTS FOR LAND

	2018 HK$'000	2017 HK$'000
Land use rights in the PRC	**547,004**	592,206
Analysed for reporting purposes as:		
Non-current assets	**531,615**	575,810
Current assets	**15,389**	16,396
	547,004	592,206

19. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Cost of investments		
Listed in Hong Kong	**4,678,968**	2,862,287
Unlisted	**4,530,627**	2,581,975
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,839,428**	2,788,083
	13,049,023	8,232,345
Market value of the interest in the listed associate	**3,371,751**	3,611,541

Set out below are the particulars of the principal associates at 31 December 2018 and 2017. In the opinion of the directors of the Company, to give details of other associates would result in particulars of excessive length.

Name of entity	Place of incorporation/ establishment	Place of operation	Proportion of nominal value of issued ordinary capital/registered capital indirectly held 2018	2017	Principal activities
China Overseas Grand Oceans Group Ltd. ("COGO")*	Hong Kong	PRC	**38.32%** *(Note)*	37.98% *(Note)*	Property development and investment, and investment holding
金茂投資(長沙)有限公司	PRC	PRC	**20%**	20%	Property development
廣州利合房地產開發有限公司	PRC	PRC	**20%**	20%	Property development
上海佳晟房地產開發有限公司	PRC	PRC	**49%**	–	Property development
北京金良興業房地產開發有限公司	PRC	PRC	**40%**	40%	Property development

* *COGO is listed in the Main Board of the Hong Kong Stock Exchange.*

Note: Pursuant to the irrevocable undertaking of the rights issue on the basis of one rights share for every two shares, the Group has taken up the full entitlement to the new shares under the rights issue of COGO on 5 February 2018. The Group's shareholding on COGO is 38.32% immediately after the completion of the rights issue.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. INTERESTS IN ASSOCIATES *(continued)*

All of these associates are accounted for using the equity method in these consolidated financial statements.

Set out below is the summarised financial information of associate of the Group at 31 December 2018 which, in the opinion of the directors of the Company, is material to the Group.

Summarised Statement of Financial Position

	COGO	
	2018	2017
	HK$'000	*HK$'000*
Current		
Bank balances and cash	**33,264,183**	23,702,253
Other current assets	**79,953,944**	66,026,148
Total current assets	**113,218,127**	89,728,401
Financial liabilities (excluding trade payables)	**(14,835,458)**	(8,138,421)
Other current liabilities (including trade payables)	**(56,254,913)**	(46,385,993)
Total current liabilities	**(71,090,371)**	(54,524,414)
Non-current		
Total non-current assets	**5,051,147**	5,595,345
Financial liabilities	**(23,195,463)**	(22,459,969)
Other liabilities	**(3,704,858)**	(3,876,349)
Total non-current liabilities	**(26,900,321)**	(26,336,318)
Net assets	**20,278,582**	14,463,014

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. INTERESTS IN ASSOCIATES *(continued)*

Summarised Statement of Comprehensive Income

	COGO	
	2018	2017
	HK$'000	*HK$'000*
Revenue	**25,571,306**	20,277,831
Depreciation and amortisation	**(54,827)**	(54,807)
Interest income	**394,818**	178,146
Interest expense	**(92,266)**	(32,500)
Profit before tax	**6,342,551**	3,182,151
Income tax expenses	**(3,841,015)**	(1,920,417)
Profit for the year	**2,501,536**	1,261,734
Other comprehensive income	**(1,547,283)**	2,104,829
Total comprehensive income	**954,253**	3,366,563
Dividends received from COGO	**78,718**	26,001

Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate

	COGO	
	2018	2017
	HK$'000	*HK$'000*
Opening net assets at 1 January	**14,463,014**	11,185,300
Adjustments on adoption of HKFRS 15, net of tax	**466,357**	–
Restated opening net assets at 1 January	**14,929,371**	11,185,300
Profit for the year	**2,501,536**	1,261,734
Rights issue and share issue expenses	**4,607,664**	–
Other comprehensive income and other reserves	**(1,554,587)**	2,084,447
Dividends paid	**(205,402)**	(68,467)
Closing net assets at 31 December	**20,278,582**	14,463,014
Non-controlling interests	**(830,403)**	(785,872)
Equity attributable to owners of the associate	**19,448,179**	13,677,142
Interest in associate (%)	**38.32%**	37.98%
Interest in associate	**7,452,542**	5,194,579
Carrying value at 31 December	**7,452,542**	5,194,579

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. INTERESTS IN ASSOCIATES *(continued)*

Aggregate Information of Associates that are not Individually Material

	2018 HK$'000	2017 HK$'000
The Group's share of profit	**1,277,473**	684,609
The Group's share of other comprehensive income	**(128,571)**	147,199
The Group's share of total comprehensive income	**1,148,902**	831,808
Aggregate carrying amount of the Group's interests in these associates	**5,596,481**	3,037,766

The financial guarantees relating to the Group's interests in associates are disclosed in Note 41.

20. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Cost of investments, unlisted	**9,642,232**	8,871,010
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,991,615**	3,534,060
	13,633,847	12,405,070

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

20. INTERESTS IN JOINT VENTURES *(continued)*

Set out below are the particulars of the principal joint ventures at 31 December 2018 and 2017. In the opinion of the directors of the Company, to give details of other joint ventures would result in particulars of excessive length. These joint ventures are established and operating in the PRC, unless otherwise indicated.

Name of entity	Place of incorporation/ establishment	Place of operation	Proportion of nominal value of issued ordinary capital/registered capital held by the Group 2018	2017	Principal activities
重慶嘉江房地產開發有限公司	PRC	PRC	**60%^**	60%^	Property development
重慶豐盈房地產開發有限公司	PRC	PRC	**45%^**	45%^	Property development
重慶嘉益房地產開發有限公司	PRC	PRC	**50%**	50%	Property development
中國南航建設開發有限公司	PRC	PRC	**51%^**	51%^	Property development
中信保利達地產（佛山）有限公司	PRC	PRC	**50%**	50%	Property development
北京南悅房地產開發有限公司	PRC	PRC	**35%^**	35%^	Property development
杭州世茂世盈房地產開發有限公司	PRC	PRC	**50%**	50%	Property development
Top Regent Holdings Limited	Hong Kong	Hong Kong	**33.3%^**	33.3%^	Property development
廣州穗海置業有限公司	PRC	PRC	**25%^**	–	Property development
天津豪達房地產開發有限公司	PRC	PRC	**25%^**	–	Property development

^ *The Group exercises joint control over decisions about the relevant activities require unanimous consent with other joint venture partners in accordance with joint venture agreements and/or the companies' Articles, and accordingly, these companies have been accounted for as joint ventures.*

All of these joint ventures are accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, there are no individually material joint ventures.

Aggregate information of joint ventures that are not individually material

	2018 **HK$'000**	2017 HK$'000
The Group's share of profit	**1,214,358**	774,352
The Group's share of other comprehensive income	**(753,712)**	820,563
The Group's share of total comprehensive income	**460,646**	1,594,915
Aggregate carrying amount of the Group's interests in these joint ventures	**13,633,847**	12,405,070

The financial guarantees relating to the Group's interests in joint ventures are disclosed in Note 41.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

21. AMOUNTS DUE FROM ASSOCIATES AND JOINT VENTURES UNDER NON-CURRENT ASSETS

	2018			2017		
	Interest-free	**Interest bearing**	**Total**	Interest-free	Interest bearing	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from:						
associates	**2,654,526**	**2,275,746**	**4,930,272**	4,489,974	4,479,818	8,969,792
joint ventures	**1,773,540**	**2,808,110**	**4,581,650**	3,410,484	3,182,190	6,592,674
	4,428,066	**5,083,856**	**9,511,922**	7,900,458	7,662,008	15,562,466

At 31 December 2018, the interest bearing amounts due from associates and joint ventures bear variable interest rates ranging from 4.75% to 6.18% (2017: 4.75% to 12.0%) per annum.

All the non-current amounts due from associates and joint ventures are unsecured and not expected to be recovered within one year after the end of the reporting period.

22. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials and consumables, at cost	**103,400**	82,852

23. STOCK OF PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
Completed properties	**32,431,638**	36,582,703
Properties under development *(Note)*	**350,377,114**	298,958,860
Total stock of properties	**382,808,752**	335,541,563

Note: Included in the amount are properties under development of HK$203,515,337,000 (2017: HK$243,375,920,000) not expected to be realised within twelve months from the end of the reporting period.

At 31 December 2018, stock of properties with carrying amount of HK$117,744,000 (2017: HK$403,270,000) were stated at their net realisable values.

At 31 December 2018, properties under development included the costs to fulfil contracts amounting to HK$45,049,604,000.

At 31 December 2018, stock of properties included costs incurred for a project in Beijing of HK$15,170,091,000 (2017: HK$13,283,086,000), whereby the Group entered into agreements with the Beijing local government for land development works such as relocation of residents and infrastructure constructions, and subsequent development of residential properties for sale.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

24. LAND DEVELOPMENT EXPENDITURE

	2018 **HK$'000**	2017 HK$'000
Cost incurred	**28,715,739**	24,305,938

The Group, together with independent third parties, entered into agreements ("Agreements") with the Beijing local government to jointly redevelop some lands in Beijing. The Group assists the Beijing local government for the land redevelopment works, which included but is not limited to the removal of the existing buildings situated on the land, the relocation of the existing residents, the provision of infrastructure systems including roads, drainage system, water, gas and electricity supply and the construction of public facilities. Pursuant to the Agreements, the Group will be reimbursed for the actual costs incurred in carrying out the land development and be entitled to the fixed returns irrespective of whether the Group will obtain the land use rights of the land in the future. The fixed return is recognised as income from primary land development under other income in the consolidated financial statements with reference to the progress for the land development.

25. TRADE AND OTHER RECEIVABLES

Proceeds receivable in respect of properties development are settled in accordance with the terms stipulated in the sale and purchase agreements.

Except for the proceeds from properties development and rental income from lease of properties which are receivable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of not exceeding 60 days to its customers.

The following is an ageing analysis of trade receivables presented at the end of the reporting period:

	2018 **HK$'000**	2017 HK$'000
Trade receivables, aged		
0–30 days	**5,973,972**	6,315,313
31–90 days	**778,659**	653,876
Over 90 days	**718,485**	1,857,092
	7,471,116	8,826,281
Other receivables	**3,653,692**	5,474,286
	11,124,808	14,300,567

Before accepting any new customer, the Group uses an internal credit assessment system to assess the potential customers' credit quality and defines credit limits by customer.

In determining the recoverability of a trade receivable, management has closely monitored the credit qualities and the collectability of these receivables and considers that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no provision required at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

26. AMOUNTS DUE FROM FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES/NON-CONTROLLING SHAREHOLDERS UNDER CURRENT ASSETS

At 31 December 2018 and 2017, all the amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand.

At 31 December 2017, the amounts due from associates included amounts due from COGO of HK$5,078,860,000, which were mainly arisen from the disposal of subsidiaries to COGO by the Group in 2016. The amounts included HK$3,343,788,000 which bore variable interest at the People's Bank of China prevailing lending rate per annum and HK$1,532,425,000 which bore variable interest at Hong Kong Interbank Offered Rate ("HIBOR") per annum. Apart from these, the remaining balances of amounts due from associates at 31 December 2017 were unsecured, interest-free and recoverable within one year or on demand.

At 31 December 2018, the amounts due from associates are unsecured, interest-free and recoverable within one year or on demand except for the amounts of HK$2,694,021,000 and HK$1,139,136,000, which bear fixed and variable interest rates, respectively, at 4.75% per annum.

At 31 December 2018, the amounts due from joint ventures are unsecured, interest-free and recoverable on demand except for the amounts of HK$2,670,773,000 (2017: HK$Nil) and HK$1,008,158,000 (2017: HK$Nil) which bear fixed and variable interest rates, respectively, ranging from 2.5% to 9.0% per annum.

At 31 December 2018, the amounts due from non-controlling shareholders are unsecured, interest-free and recoverable within one year or on demand except for an amount of HK$228,833,000 (2017: HK$Nil) which bears fixed interest rate at 2.1% per annum.

27. AMOUNTS DUE FROM CITIC LIMITED AND ITS SUBSIDIARIES ("CITIC GROUP")

At 31 December 2017, the amounts due from CITIC Group were unsecured, interest-free and recovered during the year ended 31 December 2018.

28. BANK BALANCES AND CASH

Included in bank balances and cash are restricted bank deposits of HK$4,450,014,000 (2017: HK$4,590,558,000) which can only be applied in the designated property development projects.

All bank deposits of the Group carry interest at market rates ranging from 0.01% to 4.47% (2017: 0.01% to 3.38%) per annum.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

28. BANK BALANCES AND CASH *(continued)*

At the end of the reporting period, the Group had the following bank balances and cash denominated in foreign currencies:

	2018 *HK$'000*	2017 *HK$'000*
Bank balances and cash denominated in:		
HK$	**8,069,464**	26,647,064
US$	**4,658,929**	3,201,975

The reconciliation of liabilities arising from financing activities is as follow:

	Bank and other borrowings *HK$'000*	**Notes payable** *HK$'000*	**Interest payable** *HK$'000*	**Amounts due to fellow subsidiaries** *HK$'000*	**Amounts due to associates** *HK$'000*	**Amounts due to joint ventures** *HK$'000*	**Amounts due to non-controlling shareholders** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	96,245,128	77,575,412	751,934	678,296	1,400,177	2,158,084	3,839,122	182,648,153
Cash flows								
– inflow from financing activities	50,199,681	–	–	108,225	529,758	3,179,097	3,485,529	57,502,290
– outflow from financing activities	(48,897,982)	(5,815,625)	(7,592,840)	(29,527)	(25,581)	(75,355)	(570,885)	(63,007,795)
Exchange realignment	4,871,102	2,828,221	93,337	–	147,297	163,805	456,118	8,559,880
Other non-cash movements	1,162,762	69,738	7,429,071	–	(22,796)	–	1,643,091	10,281,866
At 31 December 2017	103,580,691	74,657,746	681,502	756,994	2,028,855	5,425,631	8,852,975	195,984,394
Cash flows								
– inflow from financing activities	**27,557,261**	**19,137,071**	**–**	**221,004**	**668,593**	**4,281,720**	**8,306,646**	**60,172,295**
– outflow from financing activities	**(12,227,084)**	**(11,475,000)**	**(8,812,407)**	**–**	**(1,127,525)**	**(474,468)**	**(775,108)**	**(34,891,592)**
Exchange realignment	**(3,888,372)**	**(1,577,378)**	**(35,766)**	**–**	**(84,280)**	**(273,144)**	**(784,493)**	**(6,643,433)**
Other non-cash movements	**108,658**	**75,383**	**9,171,812**	**–**	**381,847**	**–**	**1,534,504**	**11,272,204**
At 31 December 2018	**115,131,154**	**80,817,822**	**1,005,141**	**977,998**	**1,867,490**	**8,959,739**	**17,134,524**	**225,893,868**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

29. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables presented based on invoice date at the end of the reporting period:

	2018 **HK$'000**	2017 HK$'000
Trade payables, aged		
0–30 days	**17,871,619**	12,550,567
31–90 days	**3,273,273**	1,392,923
Over 90 days	**20,768,075**	20,223,088
	41,912,967	34,166,578
Other payables	**7,024,946**	6,537,816
Retentions payable	**11,067,930**	11,121,905
	60,005,843	51,826,299

Other payables mainly include other taxes payable and accrued charges.

Of the other payables and retentions payable, an amount of HK$4,242,362,000 (2017: HK$4,632,851,000) is due beyond twelve months from the end of the reporting period.

30. AMOUNTS DUE TO FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES

At 31 December 2018, the amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand except for the amounts of HK$710,095,000 (2017: HK$Nil) which bear fixed interest rate ranging from 5.5% to 6.0% per annum.

At 31 December 2018, except for the unsecured amounts due to associates and joint ventures of HK$1,437,225,000 (2017: HK$1,216,867,000) and HK$1,712,929,000 (2017: HK$307,229,000), respectively, which bear fixed interest rates ranging from 0.35% to 5.23% (2017: 0.35% to 3.70%) per annum and repayable within one year, all the amounts due to associates and joint ventures are unsecured, interest-free and repayable on demand.

31. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

At 31 December 2018, the current amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand except for the amounts of HK$4,148,375,000 (2017: HK$2,067,143,000) and HK$2,694,525,000 (2017: HK$61,504,000) which bear fixed and variable interest rates, respectively, ranging from 4.35% to 8.0% (2017: 4.75% to 6.18%) per annum.

At 31 December 2018, the non-current amounts due to non-controlling shareholders are unsecured, interest-free and not repayable within one year from the end of the reporting period except for the amounts of HK$1,163,332,000 (2017: HK$1,653,012,000) and HK$758,467,000 (2017: HK$2,050,749,000) which bear fixed and variable interest rates, respectively, ranging from 5.23% to 8.5% (2017: 5.23% to 8.0%) per annum.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32. SHARE CAPITAL

	2018		2017	
	Number of shares	**Value**	Number of shares	Value
	'000	***HK$'000***	*'000*	*HK$'000*
Issued and fully paid				
At beginning and end of the year	**10,956,201**	**90,420,438**	10,956,201	90,420,438

Share-based Payments

Share Option Schemes by the Group

On 29 June 2018, the Company offered to grant share options (the "Share Options") to certain eligible persons (collectively, the "Grantees"), to subscribe for a total of 107,320,000 shares of the Company, subject to acceptance of the Grantees, under the share option scheme adopted by the Company on 11 June 2018. Out of the 107,320,000 Share Options granted, a total of 2,000,000 Share Options were granted to directors of the Company. The exercise price is HK$25.85 per share.

One-third of the Share Options granted will vest on each of 29 June 2020, 29 June 2021 and 29 June 2022. The closing price immediately before 29 June 2018 was HK$25.85 per share.

The fair value of the Share Options on the 29 June 2018 determined using the Binomial Options Pricing Model was HK$6.36 per share. The significant inputs adopted in the model include:

Risk-free rate	2.12% with reference to the market yield rates of the Hong Kong Government Bond (maturing 21 June 2021 and 6 December 2021) as of the 29 June 2018
Historical volatility	31.91% calculated based on the historical price with period equals to the life the Share Options
Cap of the share-based payments	40% of respective Grantees' remuneration
Dividend yield	3.09% based on the average dividend yield in the past six years
Expected option life	6 years

The Binomial Options Pricing Model requires input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

Set out below are summaries of options granted under the plan:

	2018	
	Average exercise price per share	**Number of share options**
		'000
At 1 January	**Nil**	–
Granted during the year	**HK$25.85**	**107,320**
Forfeited during the year	**HK$25.85**	**(2,280)**
At 31 December	**HK$25.85**	**105,040**

No options were expired and exercised during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32. SHARE CAPITAL *(continued)*

Share-based Payments *(continued)*

Share Option Schemes by the Group *(continued)*
Share options outstanding at the end of the year have the following expiry date and exercise price:

Grant Date	Expiry date	Exercise price per share	Number of share options
29 June 2018	28 June 2024	HK$25.85	105,040,000
Weighted average remaining contractual life of options outstanding at end of the year			5.5 years

A-shares Restricted Stock Incentive Plan by Group's Holding Entities

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan") of China State Construction Engineering Corporation Limited ("CSCECL"), an intermediate holding company of the Company, 10,200,000 incentive shares were granted to certain employees of the Company (the "Employees", including one director and certain members of senior management) on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share, subject to a lock-up period of two-year service from the Grant Date (the "Lock-up Period"). During the Lock-up Period, the incentive shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the incentive shares are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date. Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over the incentive shares will be removed, otherwise, CSCECL has constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or individual's key performance indicators are not achieved.

The fair value of the incentive shares on the Grant Date determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs adopted in the model include:

Closing price on the Grant Date	RMB9.16 per share
Exercise price	RMB4.866 per share
Average volatility	44%
Average dividend yield	3.32%
Average annual risk-free interest rate	2.84%

The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

Pursuant to the bonus issue of CSCECL on the basis of 4 new shares for 10 existing shares during 2018, there was an increase in number of ordinary shares of CSCECL. As the fair value of the incentive shares on the Grant Date remained RMB2.21 per share, the number of incentive shares granted on the Grant Date and the exercise price per share were adjusted to 14,280,000 shares and RMB3.476 per share respectively.

	2018 *'000*	2017 *'000*
Number of shares issued under the Incentive Plan to Employees at end of the year	**13,314**	10,260

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

33. BANK AND OTHER BORROWINGS

	2018 **HK$'000**	2017 HK$'000
Bank and other borrowings		
– secured	–	963,072
– unsecured	**115,131,154**	102,617,619
	115,131,154	103,580,691

	2018 **HK$'000**	2017 HK$'000
The bank and other borrowings are repayable as follows:		
Within one year	**14,627,002**	13,324,575
More than one year, but not exceeding two years	**37,485,474**	10,464,457
More than two years, but not exceeding five years	**57,526,825**	77,029,249
After five years	**5,491,853**	2,762,410
Total bank and other borrowings	**115,131,154**	103,580,691
Less: Amounts classified as current liabilities	**(14,627,002)**	(13,324,575)
Amounts classified as non-current liabilities	**100,504,152**	90,256,116

Borrowings of the Group with carrying amount of HK$76,109,214,000 (2017: HK$66,505,362,000) bear interest at rates ranging from 4.28% to 7.50% (2017: 4.28% to 7.50%) per annum and are denominated in RMB. Borrowings of the Group amounting to HK$1,988,000,000 (2017: HK$2,009,229,000), which are denominated in GBP, are based on London Interbank Offered Rate plus a specified margin per annum. The remaining borrowings of the Group amounting to HK$37,033,940,000 (2017: HK$35,066,100,000), which are denominated in HK$, are based on HIBOR plus a specified margin per annum.

The Group's weighted average borrowing cost excluding the effect of capitalisation of exchange losses of HK$1,145,586,000 (2017: HK$324,244,000) is 4.30% (2017: 4.27%) per annum. The borrowings amounting to HK$19,235,538,000 (2017: HK$17,284,337,000) and HK$95,895,616,000 (2017: HK$86,296,354,000) are carried at fixed interest rates and variable interest rates respectively.

At 31 December 2017, secured bank and other borrowings of the Group were pledged by certain assets as set out in Note 42.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34. NOTES PAYABLE

At 31 December 2018 and 2017, the Group has the following notes issued with similar terms and conditions and different features:

Issue date	Principal amount *(in million)*	Issue price	Fixed interest rate per annum	Maturity date	Fair value at 31 December 2018 ***HK$'000***	Carrying amount at 31 December 2018 ***HK$'000***	2017 *HK$'000*
10 November 2010	US$1,000 [i] (approximately HK$7,750)	100%	5.50% [iv]	10 November 2020	**8,086,383**	**7,734,371**	7,726,588
15 November 2012	US$700 [i] (approximately HK$5,425)	99.665%	3.95% [iv]	15 November 2022	**5,475,437**	**5,397,827**	5,391,484
15 November 2012	US$300 [i] (approximately HK$2,325)	99.792%	5.35% [iv]	15 November 2042	**2,456,836**	**2,303,585**	2,303,148
29 October 2013	US$500 [i] (approximately HK$3,877)	99.613%	3.375% [iv]	29 October 2018	**–**	**–**	3,870,708
29 October 2013	US$500 [i] (approximately HK$3,877)	99.595%	5.375% [iv]	29 October 2023	**4,123,940**	**3,857,788**	3,854,459
29 October 2013	US$500 [i] (approximately HK$3,877)	99.510%	6.375% [iv]	29 October 2043	**4,640,734**	**3,841,628**	3,841,059
8 May 2014	US$550 [i] (approximately HK$4,263)	99.786%	4.25% [iv]	8 May 2019	**4,321,987**	**4,261,057**	4,254,386
8 May 2014	US$450 [i] (approximately HK$3,488)	99.554%	5.95% [iv]	8 May 2024	**3,814,141**	**3,467,905**	3,464,760
8 May 2014	US$250 [i] (approximately HK$1,938)	101.132%	4.25% [iv]	8 May 2019	**1,964,540**	**1,938,895**	1,941,430
8 May 2014	US$250 [i] (approximately HK$1,938)	103.080%	5.95% [iv]	8 May 2024	**2,118,967**	**1,967,870**	1,972,546
11 June 2014	US$500 [i] (approximately HK$3,876)	99.445%	6.45% [iv]	11 June 2034	**4,547,142**	**3,839,804**	3,838,472
15 July 2015	EUR600 [i] (approximately HK$5,086)	99.587%	1.75% [iv]	15 July 2019	**5,420,701**	**5,367,341**	5,604,209
6 November 2015	EUR400 [i] (approximately HK$3,375)	99.541%	1.70% [v]	6 November 2019	**3,625,303**	**3,575,540**	3,733,553
19 November 2015	RMB3,404 (approximately HK$3,894) (2017: RMB7,000 (approximately HK$8,393) [ii])	100%	4.20% [v] (2017: 3.40%)	19 November 2021	**3,911,014**	**3,894,412**	8,433,735
19 November 2015	RMB1,000 [iii] (approximately HK$1,199)	100%	3.85% [v]	19 November 2022	**1,135,745**	**1,144,165**	1,204,819
9 December 2015	RMB1,015 (approximately HK$1,161) (2017: RMB4,000 (approximately HK$4,749) [ii])	100%	4.80% [v]	9 December 2020	**1,161,327**	**1,151,561**	4,794,779
15 January 2016	RMB1,000 [ii] (approximately HK$1,110)	100%	4.40% [v]	15 January 2021	**1,144,165**	**1,134,543**	1,198,695
23 August 2016	RMB6,000 [iii] (approximately HK$6,719)	100%	3.10% [v]	23 August 2026	**6,736,002**	**6,864,988**	7,228,916
5 February 2018	RMB3,000 [i] (approximately HK$3,743)	100%	5.60% [v]	6 February 2021	**3,432,494**	**3,432,494**	–
26 April 2018	US$750 [i] (approximately HK$5,850)	99.844%	4.25% [iv]	26 April 2023	**5,905,069**	**5,825,210**	–
26 April 2018	US$750 [i] (approximately HK$5,850)	99.646%	4.75% [iv]	26 April 2028	**5,941,316**	**5,812,261**	–
22 October 2018	RMB3,500 [ii] (approximately HK$4,005)	100%	4.00% [v]	22 October 2024	**4,004,577**	**4,004,577**	–
						80,817,822	74,657,746
			Less: Amounts classified as current liabilities			**(16,277,376)**	(17,099,222)
			Amounts classified as non-current liabilities			**64,540,446**	57,558,524

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34. NOTES PAYABLE *(continued)*

Notes:

(i) *The notes payable are unconditionally and irrevocably guaranteed by the Company. They shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the trust deed which include, inter alia, the negative pledge given by the Company and the related subsidiaries.*

(ii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the third year from issue date. Notes payable of RMB6,581 million (approximately HK$8,087 million) were sold back during the year ended 31 December 2018.*

(iii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the fifth year from issue date.*

(iv) *Payable semi-annually*

(v) *Payable annually*

(vi) *The fair values of the notes payable at 31 December 2018 were determined based on the closing market prices of the notes payable and are within Level 1 of the fair value hierarchy.*

35. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

Deferred tax liabilities/(assets)

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Fair value adjustment on properties *HK$'000*	Undistributed earnings of PRC subsidiaries and joint ventures *HK$'000*	Other taxable temporary differences *HK$'000*	Unrealised profit *HK$'000*	Tax loss *HK$'000*	Provision for LAT *HK$'000*	Other deductible temporary differences *HK$'000*	Total *HK$'000*
At 1 January 2017	49,333	8,069,793	707,676	391,348	189,091	(171,295)	(61,381)	(2,916,151)	(169,071)	6,089,343
Charged/(credited) to profit or loss	–	1,388,237	(243,586)	16,311	193,341	13,409	(60,481)	(947,718)	(1,544)	357,969
Disposal of investment properties	–	(22,434)	–	–	–	–	–	–	–	(22,434)
Acquisition/disposal of subsidiaries	–	–	1,638,428	–	–	–	26,190	–	–	1,664,618
Exchange realignment	–	654,009	122,056	30,294	23,119	(12,517)	(3,220)	(90,708)	(10,665)	712,368
At 31 December 2017	49,333	10,089,605	2,224,574	437,953	405,551	(170,403)	(98,892)	(3,954,577)	(181,280)	8,801,864
Adjustments on adoption of HKFRS 15 *(Note 2(a))*	**–**	**–**	**–**	**–**	**737,994**	**–**	**(4,671)**	**275,725**	**–**	**1,009,048**
Restated balance at 1 January 2018	**49,333**	**10,089,605**	**2,224,574**	**437,953**	**1,143,545**	**(170,403)**	**(103,563)**	**(3,678,852)**	**(181,280)**	**9,810,912**
Charged/(credited) to profit or loss	**2,215**	**2,524,525**	**(163,207)**	**(265,097)**	**149,521**	**(7,805)**	**(333,959)**	**(1,571,973)**	**18,449**	**352,669**
Disposal of investment properties	**–**	**(37,408)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(37,408)**
Exchange realignment	**–**	**(602,679)**	**(27,174)**	**(641)**	**(43,951)**	**9,681**	**17,933**	**166,305**	**6,169**	**(474,357)**
At 31 December 2018	**51,548**	**11,974,043**	**2,034,193**	**172,215**	**1,249,115**	**(168,527)**	**(419,589)**	**(5,084,520)**	**(156,662)**	**9,651,816**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

35. DEFERRED TAX *(continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2018 HK$'000	2017 HK$'000
Net deferred tax assets	**(5,888,836)**	(4,902,484)
Net deferred tax liabilities	**15,540,652**	13,704,348
	9,651,816	8,801,864

Under the CIT Law of PRC, withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$7,649,209,000 (2017: HK$5,909,801,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group had unused tax losses of HK$11,812,935,000 (2017: HK$12,757,231,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the tax losses are losses of HK$7,901,250,000 (2017: HK$6,808,726,000) that will expire within five years from the end of the reporting period. Other tax losses may be carried forward indefinitely.

36. GOODWILL

	2018 HK$'000	2017 HK$'000
Carrying amounts	**64,525**	64,525

The amount represented goodwill arising from acquisition of the entire equity interest in Hua Yi Designing Consultants Limited ("Hua Yi"). Hua Yi and its subsidiary are principally engaged in the provision of building design consultancy services and investment holding. For the purpose of impairment testing, the attributable amount of goodwill, having indefinite useful lives, has been allocated to the other operations category in the reportable segment.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

37. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

On 20 October 2017, the Group entered into a sale and purchase agreement with 中海物業管理有限公司, a wholly-owned subsidiary of China Overseas Property Holdings Limited ("COPL"), which is a fellow subsidiary of the Company, to dispose of the entire equity interests of 中信物業服務有限公司 ("中信物業") for a cash consideration of RMB190,000,000 (equivalent to HK$220,930,000). 中信物業 and its subsidiaries are principally engaged in property management businesses in mainland China. The disposal was completed on 21 December 2017.

In addition to the above disposal, the Group has also completed a disposal of a subsidiary during the year.

The total net assets of the disposed subsidiaries at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	10,296
Deferred tax assets	26,190
Trade and other receivables	86,593
Bank balances and cash	354,670
Amounts due from related companies	183,721
Other assets	12,122
Trade and other payables	(337,007)
Receipts in advance and other deposits	(120,032)
Tax liabilities	(46,311)
Amounts due to related companies	(97,176)
Net assets	73,066
Non-controlling interests	(2,069)
	70,997
Gain on disposal of subsidiaries	165,865
Considerations	236,862

Analysis of net outflow of cash and cash equivalents in respect of disposal of subsidiaries:

	HK$'000
Cash considerations received during the year	192,678
Less: Cash and cash equivalents disposed	(354,670)
	(161,992)

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

38. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

On 17 June 2017, Beauty Select Limited ("Beauty Select"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with GCPF Shanghai 65 Corp. ("GCPF"), pursuant to which Beauty Select agreed to purchase and GCPF agreed to sell the 50% of the issued shares of Big Profit Enterprises Limited ("Big Profit") at a total cash consideration of USD232,545,000 (equivalent to HK$1,813,903,000). Related shareholder's loan of USD160,840,000 (equivalent to HK$1,252,185,000) was also acquired as part of the acquisition. Big Profit is an investment holding company and holds 100% equity interest in 上海中海海軒房地產有限公司 (Shanghai COB Haixuan Real Estate Co., Limited) ("Shanghai COB Haixuan"), which is engaged in property investment business in Shanghai, the PRC. The acquisition was completed on 27 June 2017 and Big Profit became a wholly-owned subsidiary of the Company.

Before the acquisition, the Group held 50% equity interest in Big Profit which was accounted for as a joint venture of the Group. The Group remeasured its equity interest in Big Profit immediately prior to the acquisition date, resulting in a gain arising from fair value remeasurement of HK$2,140,171,000. In addition, a gain on acquisition of subsidiaries of HK$326,267,000, being the difference between the fair value of total identifiable net assets acquired and the aggregate consideration transferred and fair value of previously held equity interest, was recognised.

The acquisition-related costs have been expensed off and are included in the administrative expenses in the profit or loss.

The following table summarised the consideration for the acquisition as mentioned above, and the fair value of assets acquired and liabilities assumed at the acquisition date.

	HK$'000
Aggregate consideration transferred and fair value of previously held equity interest:	
Total consideration	1,813,903
Fair value of the previously held equity interest in Big Profit immediately prior to acquisition	2,140,171
	3,954,074

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

38. ACQUISITION OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2017 *(continued)*

	Fair value on acquisition *HK$'000*
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Investment properties	9,780,396
Property, plant and equipment	286
Other receivables, deposits and prepayments	21,817
Bank balances and cash	58,129
Trade and other payables	(371,664)
Bank borrowings	(1,065,825)
Deferred tax liabilities	(1,638,428)
Loans due to GCPF	(1,252,185)
Loans due to the Group	(1,252,185)
Total identifiable net assets acquired	4,280,341
Gain on acquisition of subsidiaries	(326,267)
	3,954,074
Net cash outflow arising from acquisition:	
Cash consideration paid	(1,813,903)
Acquisition of loans owed by Big Profit to GCPF	(1,252,185)
Cash and cash equivalents acquired	58,129
	(3,007,959)

Big Profit and Shanghai COB Haixuan had contributed to the Group's revenue and profit amounting to HK$10,748,000 and a loss of HK$36,936,000 for the year ended 31 December 2017 respectively since the date of acquisition.

Had the acquisition of Big Profit been completed on 1 January 2017, the Group's revenue and profit for the year ended 31 December 2017 would have been HK$166,044,963,000 and HK$42,141,989,000 respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

39. OPERATING LEASE COMMITMENTS

The Group as Lessor

At the end of the reporting period, completed investment properties and other properties with carrying amounts of HK$86,217,423,000 (2017: HK$83,171,366,000) and HK$36,756,000 (2017: HK$163,802,000) respectively, were let out under operating leases.

Property rental income earned during the year is HK$3,533,516,000 (2017: HK$2,450,060,000), of which HK$3,496,151,000 (2017: HK$1,629,212,000) was derived from the letting of investment properties. All of the properties leased out have committed tenants for one to twenty years without termination options granted to tenants.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**2,894,367**	1,767,453
In the second to fifth year inclusive	**5,570,759**	3,391,968
After five years	**1,679,112**	1,243,992
	10,144,238	6,403,413

The Group as Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**43,900**	59,206
In the second to fifth year inclusive	**35,470**	74,083
After five years	**334**	–
	79,704	133,289

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for two to six years.

40. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments not provided for in the consolidated financial statements:

	2018 ***HK$'000***	2017 *HK$'000*
Capital expenditure in respect of investment properties:		
Contracted but not provided for	**2,777,073**	1,041,127

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

41. FINANCIAL GUARANTEES

At the end of the reporting period, the financial guarantees were as follows:

(a) Guarantees given by the Group to banks in respect of credit facilities granted to:

	2018	2017
	HK$'000	*HK$'000*
Associates		
– Maximum	**1,565,325**	1,474,104
– Utilised	**1,565,325**	1,474,104
Joint ventures		
– Maximum	**1,005,017**	1,241,988
– Utilised	**1,005,017**	1,241,988

(b) At 31 December 2018, the Group had counter indemnities amounted to HK$23,381,000 (2017: HK$20,191,000) for guarantees issued in respect of certain construction contracts undertaken by the Group.

(c) At 31 December 2018, the Group provided guarantees amounted to HK$45,854,228,000 (2017: HK$51,140,067,000) for the repayment of the mortgage bank loans granted to purchasers of the Group's properties.

The directors of the Company considered that the fair values of financial guarantee contracts at their initial recognition and at the end of the reporting period are insignificant on the basis of short maturity periods and low applicable default rates.

42. PLEDGE OF ASSETS

At the ended of the reporting period, certain assets of the Company's subsidiaries have been pledged to secure the bank borrowings of the Company's subsidiaries. The carrying values of the pledged assets at 31 December 2018 and 2017 were as follows:

	2018	2017
	HK$'000	*HK$'000*
Investment properties	–	1,937,760
	–	1,937,760

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

43. RELATED PARTY TRANSACTIONS

(a) In addition to those balances and transactions disclosed elsewhere in the consolidated financial statements, the following material related party transactions have been entered into by the Group during the year:

Nature of transaction	NOTES	2018 HK$'000	2017 HK$'000
Fellow subsidiaries			
Property development project construction fee	(a)	**4,635,271**	4,521,464
Rental and utility income	(b)	**70,117**	2,486
Insurance fee	(c)	**117**	125
Heating pipes connection service fee	(a)	**30,435**	41,259
Building design consultancy income	(c)	**9,071**	1,939
Property management fee	(f)	**367,921**	253,109
Engineering service fee	(f)	**27,872**	9,510
Associates			
Interest income	(d)	**210,358**	294,682
Royalty income	(e)	**200,000**	203,537
Rental expenses	(b)	**17,429**	15,301
Underwriting commission income	(g)	**43,316**	–
Joint ventures			
Interest income	(d)	**224,118**	86,524

Notes:

(a) *Property development project construction fee and heating pipes connection service fee are charged in accordance with respective contracts. The amounts represent aggregate transaction amounts during the year in relation to contracts signed in current and prior years.*

(b) *Rental income and rental expenses are charged in accordance with respective tenancy agreements.*

(c) *Insurance fee and building design consultancy income are charged in accordance with respective contracts.*

(d) *Interest income is charged at interest rates as specified in Note 21 on the outstanding amounts.*

(e) *Royalty income is charged at annual fee as specified in the contracts.*

(f) *Property management fee and engineering service fee are charged at rates in accordance with respective contracts.*

(g) *In connection with the rights issue of COGO (Note 19), the Group agreed to underwrite the rights shares of COGO and is entitled to an underwriting commission income which is charged at 1.5% of the aggregate subscription price in respect of the underwritten shares.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

43. RELATED PARTY TRANSACTIONS *(continued)*

(b) The remuneration of the Company's directors and other members of key management of the Group during the year were as follows:

	2018 *HK$'000*	2017 *HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**44,663**	37,650
Bonus	**110,114**	95,140
Provident Fund contribution	**3,760**	290
	158,537	133,080

The emoluments of other members of key management of the Group were within the following bands:

	2018	2017
HK$1,000,000 or below	**1**	–
HK$1,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$5,000,000	**3**	3
HK$5,000,001 to HK$7,500,000	**5**	5
HK$7,500,001 to HK$10,000,000	**5**	7
HK$10,000,001 to HK$12,500,000	**4**	–
	18	17

The remuneration of directors and key executives are determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

43. RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with Other State-Controlled Entities in the PRC

The Group operates in an economic environment predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCEC which is controlled by the PRC government. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities ("State-controlled Entities"). The directors of the Company consider those State-controlled Entities are independent third parties so far as the Group's businesses with them are concerned.

In connection with their property development activities, the Group awarded certain construction and other works contracts to entities, which to the best knowledge of management, are State-controlled Entities.

The Group has also entered into various transactions with the PRC government departments or agencies which include the acquisition of land mainly through tendering to those government departments or agencies.

Other than those disclosed in section (a) above and the acquisition of land from the government departments or agencies, the directors of the Company consider that the other transactions with those State-controlled Entities are not material to the Group.

In addition, in the normal course of business, the Group has maintained various trade balances with contractors and have entered into various deposits and lending transactions with banks and financial institutions which are State-controlled Entities. In view of the nature of those transactions, the directors of the Company are of the opinion that quantitative information on the extent of transactions between the Group and the government related entities would not be meaningful.

The Group is active in sales and lease of properties, the provision of real estate agency and management services and other services in various provinces in the PRC. The directors of the Company are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with State-controlled Entities. However, the directors of the Company are of the opinion that other than those disclosed in section (a) above, the transactions with State-controlled Entities are not material to the Group's operations.

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in the consolidated statement of financial position and Notes 21, 26, 27, 30 and 31.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		2018 **HK$'000**	2017 HK$'000
Non-current Assets			
Property, plant and equipment		**3,879**	953
Investments in subsidiaries		**1,387,398**	1,389,998
Amount due from a subsidiary		**–**	6,921,452
		1,391,277	8,312,403
Current Assets			
Stock of properties		**1,139**	1,139
Other receivables		**17,519**	15,378
Deposits and prepayments		**13,442**	27,955
Amounts due from subsidiaries		**153,570,816**	155,946,947
Tax prepaid		**118**	118
Bank balances and cash		**9,891,876**	8,627,574
		163,494,910	164,619,111
Current Liabilities			
Other payables		**65,445**	51,110
Other deposits		**172**	163
Amounts due to subsidiaries		**31,843,954**	26,193,168
Bank borrowings – due within one year		**–**	4,738,295
Other financial liabilities		**153,046**	190,755
		32,062,617	31,173,491
Net Current Assets		**131,432,293**	133,445,620
Total Assets Less Current Liabilities		**132,823,570**	141,758,023
Capital and Reserves			
Share capital		**90,420,438**	90,420,438
Reserves	*Note (a)*	**2,743,640**	20,586,739
Total Equity		**93,164,078**	111,007,177
Non-current Liabilities			
Bank borrowings – due after one year		**39,317,532**	30,327,805
Other financial liabilities		**341,960**	423,041
		39,659,492	30,750,846
		132,823,570	141,758,023

The statement of financial position of the Company was approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note (a): Reserves of the Company

	Other reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2017	–	(8,505,590)	8,161,370	(344,220)
Profit and total comprehensive income for the year	–	8,794,520	20,572,715	29,367,235
2016 final dividend paid	–	–	(4,601,605)	(4,601,605)
2017 interim dividend paid	–	–	(3,834,671)	(3,834,671)
At 31 December 2017	–	288,930	20,297,809	20,586,739
Loss and total comprehensive income for the year	–	(5,046,802)	(3,608,832)	(8,655,634)
2017 final dividend paid	–	–	(4,930,291)	(4,930,291)
2018 interim dividend paid	–	–	(4,382,481)	(4,382,481)
Equity settled share-based transactions *(Note 32)*	125,307	–	–	125,307
At 31 December 2018	**125,307**	**(4,757,872)**	**7,376,205**	**2,743,640**

The Company's reserves available for distribution to shareholders at 31 December 2018 represents the retained profits of HK$7,376,205,000 (2017: HK$20,297,809,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is the particulars of the principal subsidiaries at 31 December 2018 which, in the opinion of the directors of the Company, principally affect the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly	Indirectly	Principal activities
		%	%	
Ace Dragon Development Limited	1 ordinary share HK$1	–	100	Property development
Asia Metro Investment Limited	1 ordinary share HK$1	–	80	Property development
Carmelite Riverside London S.a.r.l. (vii)	15,000 shares of GBP1 each	–	100	Property investment
China Overseas Finance (Cayman) II Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) III Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) V Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) VI Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) VII Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International (Cayman) Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International II (Cayman) Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Property Limited	100 ordinary shares HK$1,000	100	–	Investment holding, property consultancy and real estate agency
China Overseas (Zhong Guo) Limited	5,000,000 ordinary shares HK$50,000,000	–	100	Investment holding
Chung Hoi Finance Limited	500,000 ordinary shares HK$5,000,000	100	–	Loan financing, investment holding and security investments

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Gain Regent Company Limited	2 ordinary shares HK$2	–	100	Property development
Goldwell Development Limited	100 ordinary shares HK$100	–	100	Property development and investment
Great Fortune Property Limited (viii)	48,100,000 shares of GBP1 each	–	100	Property investment
Great Sky Property Investment Company Limited (vii)	MOP25,000	–	100	Property development
Longcross Limited	30,370,000 ordinary shares HK$30,370,000 404,552,883 non-voting deferred shares HK$404,552,883	–	100	Property investment
Macyat Limited	10,000 ordinary shares HK$10,000	–	100	Property development
Maxjet Company Limited	10 ordinary shares HK$10	–	100	Property development
Omar Property Development Company Limited (vi)	MOP26,000	–	85	Property development
One Finsbury Circus London PropCo S.a.r.l. (vi)	12,024 shares of GBP1 each	–	100	Property investment
中海發展(上海)有限公司 (ii)	US$17,000,000	–	100	Property development
上海新海匯房產有限公司 (iii)	US$40,000,000	–	99.5	Property development
上海中海海怡房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
上海海創房地產有限公司 (iv)	RMB10,000,000	–	100	Property development
上海中建投資有限公司 (iv)	RMB450,000,000	–	51	Property investment
上海中海海軒房地產有限公司 (iv)	US$196,000,000	–	100	Property investment
大連中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
大連中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
中海新海匯(大連)置業有限公司 (iv)	RMB20,000,000	–	100	Property development
大連中海新城置業有限公司 (iv)	RMB378,520,000	–	100	Property development
中海鼎盛(西安)房地產有限公司 (ii)	RMB2,000,000,000	–	100	Property development
西安中海振興房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
西安中海興晟房地產有限公司 (iv)	RMB50,000,000	–	100	Property development
中海海潤(蘇州)房地產有限公司 (iv)	RMB30,000,000	–	100	Property development
中海海納(蘇州)房地產有限公司 (iv)	RMB445,000,000	–	100	Property development
寧波中海創城有限公司 (iv)	RMB20,000,000	–	100	Property development
寧波中海海興置業有限公司 (iv)	RMB20,000,000	–	100	Property development
天津中海海盛地產有限公司 (iv)	RMB3,540,000,000	–	100	Property development
天津中海海華地產有限公司 (iv)	RMB100,000,000	–	90	Property development
北京中海金石房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
北京中海新城置業有限公司 (iv)	RMB100,000,000	–	100	Property development
北京智地願景房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
北京仁和燕都房地產開發有限公司 (iv)	RMB40,000,000	–	100	Property development
北京中建興華房地產開發有限公司 (iv)	RMB10,000,000	–	80	Property development
北京慧眼置業有限公司 (iv)	RMB25,000,000	–	80	Property development
佛山中海千燈湖房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海環宇城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海嘉益房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
佛山海裕房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海新海匯置業有限公司 (iv)	RMB20,000,000	–	100	Property development
中海地產（瀋陽）有限公司 (iv)	US$199,600,000	–	100	Property development
瀋陽中海嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海鼎業房地產開發有限公司 (iv)	US$290,000,000	–	100	Property development
杭州中海宏鯤房地產有限公司 (iv)	RMB500,000,000	–	100	Property development
長沙中海興業房地產有限公司 (ii)	RMB662,000,000	–	100	Property development
長沙中建投資有限公司 (iv)	RMB100,000,000	–	70	Investment holding
長沙中海梅溪房地產開發有限公司 (iv)	RMB50,000,000	–	95	Property development
長春中海地產有限公司 (iii)	RMB100,000,000	–	100	Property development
長春海華房地產開發有限公司 (ii)	US$49,800,000	–	100	Property development
長春海悦房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
長春海成房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
青島中海海灣置業有限公司 (iv)	RMB10,000,000	–	100	Property development
青島中海海岸置業有限公司 (iv)	RMB1,630,000,000	–	100	Property development
南昌中海金鈺地產有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中工建設有限公司 (iv)	RMB380,000,000	–	100	Property development
重慶中海實業有限公司 (ii)	HK$1,550,000,000	–	100	Property development
重慶嘉安置業有限公司 (ii)	HK$300,000,000	–	100	Property development
重慶寶民置業有限公司 (ii)	HK$490,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
重慶海安投資有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶安喬置業有限公司 (iv)	RMB440,000,000	–	100	Property development
重慶中海興業實業有限公司 (iv)	HK$258,000,000	–	100	Property development
重慶中海投資有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海黎香湖投資有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中海海能房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海海盛房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海興城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
香港華藝設計顧問(深圳)有限公司 (ii)	RMB12,000,000	–	100	Design consultancy services
北京中海華藝城市規劃設計有限公司 (iv)	RMB1,000,000	–	100	Design consultancy services
中海地產(珠海)有限公司 (ii)	RMB405,000,000	–	100	Property development
珠海市嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
珠海市永福通房地產開發有限公司	RMB20,000,000	–	100	Property development
珠海市嘉燁房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
中海地產集團有限公司 (ii)	RMB20,000,000,000	–	100	Property development and investment, and investment holding
深圳中海地產有限公司 (iii)	HK$50,000,000	–	100	Property development
深圳市中海凱驪酒店管理有限公司 (iv)	RMB5,000,000	–	100	Hotel management
深圳市毅駿房地產開發有限公司 (iv)	RMB12,500,000	–	80	Property development
海口中海興業房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中海地產商業發展(深圳)有限公司 (ii)	RMB20,000,000	–	100	Commercial project
廈門中海海怡地產有限公司 (iv)	RMB10,000,000	–	100	Property development
昆明中海房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
雲南中海城投房地產開發有限公司 (iv)	RMB10,000,000	–	65	Property development
昆明泰運房地產開發有限公司 (ii)	RMB499,580,000	–	100	Property development
煙台中海地產有限公司 (iv)	RMB10,000,000	–	100	Property development
中海鼎業(煙台)地產有限公司 (ii)	RMB10,000,000	–	100	Property development
煙台中海興業地產有限公司 (iv)	RMB10,000,000	–	100	Property development
廣州毅源房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州世佳房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州荔安房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔駿房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔旭房地產開發有限公司 (iv)	RMB1,300,000,000	–	100	Property development
廣州荔璟房地產開發有限公司 (iv)	RMB1,350,000,000	–	100	Property development
濟南中海地產投資有限公司 (iv)	RMB50,000,000	–	100	Property development
濟南中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
濟南中海城房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development
哈爾濱中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development
哈爾濱中海龍祥房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
太原冠澤置業有限公司 (iv)	RMB200,000,000	–	100	Property development
福州中海地產有限公司 (iv)	RMB30,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
無錫中海太湖新城置業有限公司 (iv)	RMB20,000,000	–	51	Property development
無錫中海海潤置業有限公司 (iv)	RMB20,000,000	–	51	Property development
鄭州海創房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
新疆中海地產有限公司 (iv)	RMB100,000,000	–	60	Property development
北京中信房地產有限公司 (iv)	RMB50,000,000	–	100	Property development
北京中信新城房地產有限公司 (iv)	RMB500,000,000	–	80	Property development
北京國泰飯店有限公司 (iv)	RMB96,536,700	–	100	Hotel and serviced apartment operation
北京中信新城逸海房地產開發有限公司 (iv)	RMB100,000,000	–	100	Property development
大連中信海港投資有限公司 (iv)	RMB250,000,000	–	80	Property development
大連中海興隆房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
煙台中海華業地產有限公司 (iv)	RMB26,430,000	–	100	Property development
中海華南(深圳)有限公司 (iv)	RMB530,000,000	–	100	Property development
中海深圳地產投資有限公司 (iv)	RMB20,000,000	–	100	Property development
中海興隆深圳地產有限公司 (iv)	RMB1,500,000,000	–	100	Property development
中海地產(海南)投資有限公司 (iv)	RMB20,000,000	–	100	Property development
大連匯港置業有限公司 (iv)	RMB50,000,000	–	80	Property development
北京信有成投資有限公司 (iv)	RMB2,000,000	–	100	Property development
上海中海海鵬房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
湖南省中信控股有限公司 (iv)	RMB100,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
蘇州中海海隆房地產有限公司 (iv)	RMB200,000,000	–	100	Property development
珠海市盈凱達房地產有限公司 (iv)	RMB100,000,000	–	100	Property development
重慶中海鼎興實業有限公司 (iv)	RMB20,000,000	–	100	Property development
中海佳旺成都房地產開發有限公司 (iv)	RMB100,000,000	–	100	Property development
廣州市東港房地產開發有限公司 (iv)	RMB8,000,000	–	55	Property development
中海深圳房地產開發有限公司 (iv)	RMB50,000,000	–	100	Property development
佛山中海金沙水岸房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development
中海前海(深圳)投資有限公司 (iv)	RMB100,000,000	–	67	Property development
深圳市信航城資產管理有限公司 (iv)	RMB5,000,000	–	100	Property development
青島博萊置業有限公司 (iv)	RMB60,000,000	–	100	Property development
天津中信翔達房地產開發有限公司 (iv)	RMB30,000,000	–	70	Property development
深圳市雲龍城投資發展有限公司 (iv)	RMB100,000,000	–	80	Property development
湖南省中海城市廣場投資有限公司 (iv)	RMB100,000,000	–	100	Property development
湖南省中海置業開發有限公司 (iv)	RMB30,000,000	–	100	Property development
成都信蓉投資有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信蜀投資有限公司 (iv)	RMB40,000,000	–	100	Property development
四川金水灣投資有限公司 (iv)	RMB50,000,000	–	60	Property development
重慶中海振興房屋銷售有限公司 (iv)	RMB50,000,000	–	100	Property development
中信保利達地產(天津)有限公司 (iv)	US$49,500,000	–	51	Property development
成都信勤置業有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信新置業有限公司 (iv)	RMB200,000,00	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中海(萬寧)房地產有限公司 (iv)	US$25,000,000	–	100	Property development
中海聯合(萬寧)房地產有限公司 (iv)	RMB100,000,000	–	80	Property development
中海仁信(萬寧)房地產開發有限公司 (iv)	US$100,000,000	–	100	Property and tourism development
萬寧仁和發展有限公司 (iv)	US$206,200,000	–	99.9	Property development and hotel operation
萬寧金信發展有限公司 (iv)	US$53,200,000	–	99.9	Property development
中海鼎業(萬寧)房地產有限公司 (iv)	US$86,000,000	–	99.9	Property development
紀亮(上海)房地產開發有限公司 (iv)	US$79,600,000	–	100	Property development
上海老西門新苑置業有限公司 (iv)	RMB2,500,000,000	–	100	Property development
上海珠街閣房地產開發有限公司 (iv)	US$161,500,000	–	100	Property development

(i) Incorporated in the British Virgin Islands
(ii) Foreign investment enterprise registered in the PRC
(iii) Joint stock limited company established in the PRC
(iv) Limited liability company registered in the PRC
(v) Incorporated in the Cayman Islands
(vi) Incorporated in Macau
(vii) Incorporated in Luxembourg
(viii) Incorporated in Jersey

None of the subsidiaries had any debt securities in issue at the end of the year except for China Overseas Finance (Cayman) II Limited, China Overseas Finance (Cayman) III Limited, China Overseas Finance (Cayman) V Limited, China Overseas Finance (Cayman) VI Limited, China Overseas Finance (Cayman) VII Limited, China Overseas Land International (Cayman) Limited, China Overseas Land International II (Cayman) Limited, 中海地產集團有限公司 and 中信房地產集團有限公司, which have issued US$1,000,000,000, US$1,000,000,000, US$1,000,000,000, US$2,000,000,000, US$1,500,000,000, EUR600,000,000, EUR400,000,000, RMB16,903,716,000 and RMB2,015,000,000 notes payable (Note 34), respectively.

Independent Auditor's Report

羅兵咸永道

TO THE MEMBERS OF CHINA OVERSEAS LAND & INVESTMENT LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Overseas Land & Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 138 to 234, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Independent Auditor's Report (continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties; and
- Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to note 16 to the consolidated financial statements*	
The Group's investment properties amounted to HK$97,377 million as at 31 December 2017 and a fair value gain of HK$5,946 million was accounted for under "gain arising from changes in fair value of investment properties" in the consolidated income statement. Management engaged independent valuers to determine the valuation of the Group's investment properties. There are significant judgments and estimates involved in the valuation which mainly include: • Completed investment properties: The valuation was arrived at using investment approach by considering the capitalised income derived from the existing tenancies and the reversionary potential, including reversionary yields and prevailing market rents, of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. • Investment properties under construction: The valuation was arrived at using residual method by making reference to estimated selling prices as available in the relevant market. The estimated cost to complete the development and estimated developer's profit as at the date of valuation were also taken into account. The existence of significant judgments and estimates of the assumptions involved in the property valuations warrants specific audit focus and attention on this area.	Our procedures in relation to the valuation of investment properties included: • Assessing the competence, capability and independence of the valuers and discussing the scope of their work; • Assessing the methodologies used by the valuers and the appropriateness of the key assumptions based on our knowledge of the property industry, research evidence of reversionary yields, prevailing market rents, estimated selling prices with reference to comparable market transactions for similar properties and comparing the estimated developer's profit to historical records, focusing in particular on material properties where the growth in capital values was significantly higher or lower than our expectations based on available market information; and • Testing, on a sample basis, the data used in the valuation of properties, including rental rates from existing tenancies and estimated cost to complete, by agreeing them to the underlying agreements with the tenants and contractors respectively. Based on the audit procedures performed, we found the methodologies used in preparing the valuations were appropriate and the key assumptions were supportable in light of available and comparable evidence.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	
As at 31 December 2017, the total carrying values of the Group's stock of properties and net investments in unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects were HK$368,449 million. Management assesses the recoverability of property portfolio held by the Group's subsidiaries, unlisted associates and joint ventures based on estimates of the net realisable values of the underlying stock of properties, either held by the Group's subsidiaries, unlisted associates or joint ventures. This involves estimation of, inter-alia, construction costs to be incurred to complete the properties under development based on existing plans and a forecast of future sales based on current market price of properties of comparable locations and conditions. Management concluded that the current level of provision for impairment for the stock of properties held by the Group is appropriate, and no provision for impairment is necessary for the Group's net investments in unlisted associates and joint ventures. If the estimated net realisable values of the underlying stock of properties are significantly different from their carrying values as a result of changes in market conditions and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result. Accordingly, the existence of significant estimation uncertainty warrants specific audit focus and attention on this area.	Our procedures in relation to management's recoverability assessment included: **For the stock of properties held by the Group** • Testing the design and operating effectiveness of key internal controls around the property development cycle with particular focus on controls over cost budgeting and periodic review, sources of impairment assessment data and calculation of impairment provisions; • Understanding management's assessment, with reference to the appropriate supporting evidence, on the impairment of stock of properties which had relatively lower gross profit margins, within the general property development and sales cycle; and • For stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by management. For the forecast of future sales, we checked, on a sample basis, contracted sales price of the underlying properties and recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs and tested, on a sample basis, the construction costs to supporting documentations, e.g. construction contracts and other documentations.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	**For the stock of properties held by the Group's significant unlisted associates and joint ventures** • With reference to the appropriate supporting evidence, understanding the impairment assessment of net investments in unlisted associates and joint ventures performed by the Group's management, with their principal focus on stock of properties held by the unlisted associates and joint ventures which had relatively lower gross profit margins; and • For companies with stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by the Group's management. For the forecast of future sales, we checked, on a sample basis, recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs to supporting documentations, or when necessary, based on our knowledge of the property industry and research evidence. We found the key assumptions in the recoverability assessment were supportable in light of available and comparable internal and other market evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Independent Auditor's Report (continued)

OTHER INFORMATION *(continued)*

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND RISK MANAGEMENT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit and Risk Management Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Management 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 and Risk Management 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 and Risk Management 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 Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	7	**166,044,963**	164,068,528
Business tax		**(2,072,793)**	(5,351,547)
Net revenue	7	**163,972,170**	158,716,981
Direct operating costs, exclude business tax above		**(109,272,364)**	(113,073,759)
		54,699,806	45,643,222
Other income and gains, net	9	**5,353,577**	1,789,484
Gain arising from changes in fair value of investment properties	16	**5,946,121**	7,722,671
Gain on disposal of investment properties		**40,782**	1,028,432
Gain on disposal of subsidiaries	38	**165,865**	10,175,939
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	39(a)	**2,140,171**	–
Gain on acquisition of subsidiaries	39(a)	**326,267**	–
Impairment losses in respect of goodwill	39(b)	**–**	(1,903,104)
Selling and distribution costs		**(2,949,521)**	(3,371,597)
Administrative expenses		**(2,848,693)**	(3,179,742)
Operating profit		**62,874,375**	57,905,305
Share of profits of			
Associates		**1,164,116**	476,682
Joint ventures		**774,352**	775,770
Finance costs	10	**(1,393,544)**	(2,055,956)
Profit before tax		**63,419,299**	57,101,801
Income tax expenses	11	**(21,277,184)**	(18,711,025)
Profit for the year	12	**42,142,115**	38,390,776
Attributable to:			
Owners of the Company		**40,766,835**	37,020,638
Non-controlling interests		**1,375,280**	1,370,138
		42,142,115	38,390,776
		HK$	HK$
EARNINGS PER SHARE	14		
Basic and diluted		**3.72**	3.64

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	**42,142,115**	38,390,776
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation of the Company and its subsidiaries	**9,892,806**	(14,092,869)
Exchange differences on translation of associates and joint ventures	**967,762**	(975,668)
	10,860,568	(15,068,537)
Item that may be reclassified to profit or loss		
Exchange differences on translation of associates	**780,201**	(877,252)
Other comprehensive income for the year	**11,640,769**	(15,945,789)
Total comprehensive income for the year	**53,782,884**	22,444,987
Total comprehensive income attributable to:		
Owners of the Company	**51,875,215**	21,384,969
Non-controlling interests	**1,907,669**	1,060,018
	53,782,884	22,444,987

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current Assets			
Investment properties	16	**97,377,389**	67,093,181
Property, plant and equipment	17	**3,897,596**	3,886,507
Prepaid lease payments for land	18	**575,810**	567,873
Interests in associates	19	**8,232,345**	5,512,064
Interests in joint ventures	20	**12,405,070**	10,526,289
Investments in syndicated property project companies	21	**24,212**	24,212
Available-for-sale investments	21	**115,842**	147,211
Amounts due from associates	22	**8,969,792**	2,728,181
Amounts due from joint ventures	22	**6,592,674**	2,058,017
Other receivables		**456,540**	–
Goodwill	37	**64,525**	64,525
Deferred tax assets	36	**4,902,484**	3,767,912
		143,614,279	96,375,972
Current Assets			
Inventories	23	**82,852**	88,711
Stock of properties	24	**335,541,563**	261,689,777
Land development expenditure	25	**24,305,938**	7,631,262
Prepaid lease payments for land	18	**16,396**	18,397
Trade and other receivables	26	**14,300,567**	11,341,431
Deposits and prepayments		**7,240,012**	6,897,193
Deposits for land use rights for property development		**2,386,145**	5,166,601
Amounts due from fellow subsidiaries	27	**356,221**	214,442
Amounts due from associates	27	**5,508,696**	11,801,798
Amounts due from joint ventures	27	**2,985,523**	5,512,861
Amounts due from non-controlling shareholders	27	**728,934**	817,806
Amounts due from CITIC Group	28	**197,949**	839,050
Tax prepaid		**4,089,095**	5,732,244
Bank balances and cash	29	**104,050,615**	157,161,732
		501,790,506	474,913,305

Consolidated Statement of Financial Position (continued)

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Current Liabilities			
Trade and other payables	30	**51,826,299**	44,815,201
Pre-sales deposits		**77,857,359**	82,255,805
Rental and other deposits		**3,428,838**	2,887,399
Amounts due to fellow subsidiaries	31	**756,994**	678,296
Amounts due to associates	31	**2,028,855**	1,400,177
Amounts due to joint ventures	31	**5,425,631**	2,158,084
Amounts due to non-controlling shareholders	32	**5,053,174**	2,969,183
Amounts due to CITIC Group	28	**–**	265,845
Tax liabilities		**29,741,619**	21,888,194
Bank and other borrowings – due within one year	34	**13,324,575**	34,471,679
Notes payable – due within one year	35	**17,099,222**	5,814,611
		206,542,566	199,604,474
Net Current Assets		**295,247,940**	275,308,831
Total Assets Less Current Liabilities		**438,862,219**	371,684,803
Capital and Reserves			
Share capital	33	**90,420,438**	90,420,438
Reserves		**175,273,849**	131,828,004
Equity attributable to owners of the Company		**265,694,287**	222,248,442
Non-controlling interests		**7,849,143**	5,174,917
Total Equity		**273,543,430**	227,423,359
Non-current Liabilities			
Bank and other borrowings – due after one year	34	**90,256,116**	61,773,449
Notes payable – due after one year	35	**57,558,524**	71,760,801
Amounts due to non-controlling shareholders	32	**3,799,801**	869,939
Deferred tax liabilities	36	**13,704,348**	9,857,255
		165,318,789	144,261,444
		438,862,219	371,684,803

The financial statements on pages 138 to 234 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital *HK$'000*	Other property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Merger and other reserves *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2016, as previously reported	62,434,116	22,950	24,189	2,938,455	(1,522,172)	4,224,508	123,435,479	191,557,525	5,055,420	196,612,945
Acquisition of the CITIC Acquired Group *(Note 3(a))*	–	278,499	1,610	(1,186,720)	11,999,732	244,097	6,669,538	18,006,756	959,826	18,966,582
At 1 January 2016, as restated	62,434,116	301,449	25,799	1,751,735	10,477,560	4,468,605	130,105,017	209,564,281	6,015,246	215,579,527
Profit for the year	–	–	–	–	–	–	37,020,638	37,020,638	1,370,138	38,390,776
Exchange differences on translation of the Company and its subsidiaries	–	–	–	(13,782,749)	–	–	–	(13,782,749)	(310,120)	(14,092,869)
Exchange differences on translation of associates and joint ventures	–	–	–	(1,852,920)	–	–	–	(1,852,920)	–	(1,852,920)
Total comprehensive income for the year	–	–	–	(15,635,669)	–	–	37,020,638	21,384,969	1,060,018	22,444,987
2015 final dividend paid	–	–	–	–	–	–	(4,042,838)	(4,042,838)	–	(4,042,838)
2016 interim dividend paid	–	–	–	–	–	–	(3,834,671)	(3,834,671)	–	(3,834,671)
Issue of shares *(Note 33)*	27,986,322	–	–	–	–	–	–	27,986,322	–	27,986,322
Acquisition of a subsidiary from a third party	–	–	–	–	–	–	–	–	29,268	29,268
Reorganisation of the CITIC Acquired Group prior to the completion of the CITIC Assets Acquisition	–	–	–	–	(1,544,226)	–	–	(1,544,226)	–	(1,544,226)
Disposal of subsidiaries	–	–	–	399,215	96,564	–	(399,215)	96,564	(204,936)	(108,372)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(593,728)	(593,728)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(1,130,951)	(1,130,951)
Dividends to original shareholders of subsidiaries under the CITIC Acquired Group	–	–	–	–	–	–	(4,226,309)	(4,226,309)	–	(4,226,309)
Acquisition of the CITIC Acquired Group *(Note 3(a))*	–	–	–	–	(23,135,650)	–	–	(23,135,650)	–	(23,135,650)
Transfer to PRC statutory reserve	–	–	–	–	–	3,128,549	(3,128,549)	–	–	–
At 31 December 2016	90,420,438	301,449	25,799	(13,484,719)	(14,105,752)	7,597,154	151,494,073	222,248,442	5,174,917	227,423,359

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000	Other property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Merger and other reserves HK$'000	PRC statutory reserve HK$'000 (Note)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	90,420,438	301,449	25,799	(13,484,719)	(14,105,752)	7,597,154	151,494,073	222,248,442	5,174,917	227,423,359
Profit for the year	–	–	–	–	–	–	40,766,835	40,766,835	1,375,280	42,142,115
Exchange differences on translation of the Company and its subsidiaries	–	–	–	9,360,417	–	–	–	9,360,417	532,389	9,892,806
Exchange differences on translation of associates and joint ventures	–	–	–	1,747,963	–	–	–	1,747,963	–	1,747,963
Total comprehensive income for the year	–	–	–	11,108,380	–	–	40,766,835	51,875,215	1,907,669	53,782,884
2016 final dividend paid	–	–	–	–	–	–	(4,601,605)	(4,601,605)	–	(4,601,605)
2017 interim dividend paid	–	–	–	–	–	–	(3,834,671)	(3,834,671)	–	(3,834,671)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(38,386)	(38,386)
Disposal of subsidiaries	–	–	–	(554)	–	–	554	–	(2,069)	(2,069)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(775,619)	(775,619)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(760,139)	(760,139)
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,342,770	2,342,770
Release of exchange reserve of a joint venture upon acquisition	–	–	–	(171,955)	–	–	171,955	–	–	–
Capital contribution relating to share-based payments borne by an intermediate holding company	–	–	–	–	6,906	–	–	6,906	–	6,906
Transfer to PRC statutory reserve	–	–	–	–	–	2,166,296	(2,166,296)	–	–	–
At 31 December 2017	90,420,438	301,449	25,799	(2,548,848)	(14,098,846)	9,763,450	181,830,845	265,694,287	7,849,143	273,543,430

Note: *PRC statutory reserve of the Group represents general and development fund reserve applicable to subsidiaries which was established in accordance with the relevant People's Republic of China ("PRC") regulations.*

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**63,419,299**	57,101,801
Adjustments for:		
Share of profits of associates	**(1,164,116)**	(476,682)
Share of profits of joint ventures	**(774,352)**	(775,770)
Finance costs	**1,393,544**	2,055,956
Depreciation and amortisation	**208,458**	356,970
Interest income	**(1,536,755)**	(2,256,253)
Gain arising from changes in fair value of investment properties	**(5,946,121)**	(7,722,671)
Gain on disposal of investment properties	**(40,782)**	(1,028,432)
Gain on disposal of subsidiaries	**(165,865)**	(10,175,939)
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	**(2,140,171)**	–
Gain on acquisition of subsidiaries	**(326,267)**	–
Impairment losses in respect of goodwill	**–**	1,903,104
Gain on disposal of property, plant and equipment	**(9,953)**	(143,481)
Equity settled share-based payment expenses	**6,906**	–
Gain on disposal of available-for-sale investments	**(8,304)**	–
Gain on disposal of joint ventures	**(57,088)**	(13,316)
Effect of foreign exchange rate changes	**(2,463,069)**	1,272,458
Operating cash flows before movements in working capital	**50,395,364**	40,097,745
Decrease/(increase) in inventories	**3,262**	(4,794)
(Increase)/decrease in stock of properties	**(67,437,830)**	20,202,085
Increase in land development expenditure	**(39,301)**	(1,299,996)
(Increase)/decrease in trade and other receivables, deposits and prepayments	**(2,697,651)**	3,311,928
Increase in deposits for land use rights for property development	**(1,783,735)**	(4,573,118)
(Increase)/decrease in restricted bank deposits	**(2,246,868)**	392,828
(Decrease)/increase in trade and other payables, pre-sales deposits, and rental and other deposits	**(5,613,796)**	17,450,874
Cash (used in)/generated from operations	**(29,420,555)**	75,577,552
Income taxes paid	**(12,616,856)**	(15,037,661)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(42,037,411)**	60,539,891

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Interest received		**1,464,270**	2,186,795
Dividends received from joint ventures		**508,658**	1,007,782
Purchase of property, plant and equipment		**(63,132)**	(895,172)
Additions of investment properties		**(4,567,669)**	(2,377,911)
Increase in amounts due from fellow subsidiaries		**(76,938)**	(8,582)
Repayment from CITIC Group		**404,156**	6,313,600
Advances to associates		**(6,651,429)**	–
Repayment from associates		**7,467,646**	655,501
Acquisition of subsidiaries	39	**(3,007,959)**	(74,412)
Advances to joint ventures		**(5,855,752)**	(1,597,467)
Repayment from joint ventures		**3,170,905**	1,542,547
Repayment from non-controlling shareholders		**352,674**	17,751
Capital contribution to associates		**(1,032,479)**	–
Capital contribution to joint ventures		**(932,502)**	–
Capital distribution from joint ventures		**150,602**	96,164
Dividends received from associates		**399,758**	44,292
Net proceeds on disposal of available-for-sale investments		**49,363**	1,798,816
Net proceeds on disposal of property, plant and equipment		**41,867**	335,093
Net proceeds on disposal of investment properties		**199,459**	–
Net (cash outflow)/proceeds on disposal of subsidiaries	38	**(161,992)**	6,055,744
Net proceeds on disposal of associates and joint ventures		**61,044**	13,316
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(8,079,450)**	15,113,857

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	NOTE	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES			
Interest paid		**(7,371,657)**	(8,730,480)
Other finance costs paid		**(221,183)**	(62,218)
Dividends paid to owners of the Company		**(8,436,276)**	(7,877,509)
Dividends paid to non-controlling shareholders		**(717,289)**	(315,420)
Net contributions from original shareholders of subsidiaries under the CITIC Acquired Group		**–**	435,567
New bank and other borrowings raised		**50,199,681**	37,030,059
Repayment of bank and other borrowings		**(48,897,982)**	(60,259,438)
Issue of notes		**–**	8,206,722
Redemption of notes		**(5,815,625)**	–
Advances from a fellow subsidiary		**108,225**	433,360
Repayment to fellow subsidiaries		**(29,527)**	(371,587)
Contributions from non-controlling shareholders		**2,342,770**	–
Return of capital to non-controlling shareholders		**(760,139)**	(1,130,951)
Acquisition of additional interests in subsidiaries		**(64,200)**	–
Advances from associates		**529,758**	376,276
Repayment to associates		**(25,581)**	(118,343)
Advances from joint ventures		**3,179,097**	934,432
Repayment to joint ventures		**(75,355)**	(271,416)
Advances from non-controlling shareholders		**3,485,529**	38,458
Repayment to non-controlling shareholders		**(570,885)**	(711,934)
NET CASH USED IN FINANCING ACTIVITIES		**(13,140,639)**	(32,394,422)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(63,257,500)**	43,259,326
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**154,983,386**	120,047,895
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**7,734,171**	(8,323,835)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**99,460,057**	154,983,386
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**104,050,615**	157,161,732
Less: restricted bank deposits	29	**(4,590,558)**	(2,178,346)
		99,460,057	154,983,386

The notes on pages 147 to 234 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Company's immediate parent company is China Overseas Holdings Limited ("COHL"), a company incorporated in Hong Kong, and its ultimate holding company is China State Construction Engineering Corporation ("CSCEC"), an entity established in the PRC and the PRC government is a substantial shareholder of CSCEC. The registered office and principal place of business of the Company are situated at 10th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong. The Group's business activities are principally carried out in Hong Kong, Macau, Guangzhou, Shanghai, Beijing, Tianjin, Jinan, Foshan, Chengdu, Nanjing, Suzhou and other regions in the PRC.

The Company's functional currency is Renminbi ("RMB"). The financial statements are presented in Hong Kong dollars ("HK$") as the directors of the Company consider that HK$ is the appropriate presentation currency for the users of the Group's financial statements.

The Group, comprising the Company and its subsidiaries, is principally engaged in property development and investment, and treasury operations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to the Group:

Amendments to Hong Kong Accounting Standard ("HKAS") 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*

The application of the above amendments to HKFRSs has had no material impact on the Group's results and financial position.

The Group has not early adopted the following new and revised standards or amendments that have been issued but are not yet effective:

Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

[1] *Effective for annual periods beginning on or after 1 January 2018*
[2] *Effective for annual periods beginning on or after 1 January 2019*
[3] *The mandatory effective date will be determined*

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15 *"Revenue from Contracts with Customers"*

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties under development may transfer over time or at a point in time.

- The timing of revenue recognition for sale of completed properties, which is currently based on whether significant risk and reward of ownership of properties transfer, will be recognised at a later point in time when the underlying property is legally or physically transferred to the customer under the control transfer model.

- The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financing component exists in that contract.

- The Group provides different incentives to customers when they sign a property sale contract. Certain incentives (e.g. free gift and property management service) represent separate performance obligation in a contract. Part of the consideration of the contract will be allocated to those performance obligations and recognised as revenue only when performance obligation is satisfied. The amount of revenue for the sale of property will also be reduced for any cash payment to customer which is not a payment of distinct goods or services from the customer.

- Certain costs incurred for obtaining a pre-sale property contract, which are currently expensed off in profit or loss directly, will be eligible for capitalisation under HKFRS 15 and match with revenue recognition pattern of related contract in the future.

Date of adoption by the Group

The Group intends to adopt the standard on 1 January 2018 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group is estimating the overall impact of the above on in the Group's retained earnings on 1 January 2018.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 9 *"Financial Instruments"*

Nature of change
HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact
The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Group include equity instruments that are currently classified as available-for-sale financial assets for which a fair value through other comprehensive income ("FVOCI") election is available. Except for the above, the Group does not expect there will be material impact on the classification, recognition and measurement of the other financial assets held by the Group at 31 December 2017.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principle-based approach. Since the Group does not have any hedge relationships currently, there will be no impact on the Group's financial statements.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects there will be no significant impact on the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group
The adoption of HKFRS 9 is mandatory for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 *"Leases"*

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. At the end of the reporting period, the Group has non-cancellable operating lease commitments of HK$133,289,000. The Group estimates that the leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant. For other leases, the Group expects i) the effect of other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, ii) the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and iii) the impact to the Group's profit or loss and classification of cash flows going forward will not be material.

Date of adoption by the Group

The adoption of HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group has been assessing the impact of the other new or revised standards and amendments, certain of which may be relevant to the Group's operations and may give rise to changes in disclosure, recognition and remeasurement of certain items in the consolidated financial statements.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the consideration given in exchange for goods.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of Preparation *(continued)*

These consolidated financial statements comply with the applicable requirements of Hong Kong Companies Ordinance (Cap. 622), with the exception of Section 381 which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to Cap. 622) in the company's annual consolidated financial statements. Section 381 is inconsistent with the requirements of HKFRS 10 "*Consolidated Financial Statements*" so far as Section 381 applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of Section 380(6), the Company has departed from Section 381 and has not treated such companies as subsidiaries but they are accounted for in accordance with the accounting policies in Note 3. Those excluded subsidiary undertakings of the Group are disclosed in Note 20.

Application of business combination under common control
Acquisition of the CITIC Acquired Group
On 15 September 2016, the Company (as the purchaser and the guarantor) completed the acquisition of the entire issued share capital of each of Tuxiana Corp. and CITIC Real Estate Group Company Limited (together with their respective subsidiaries, the "CITIC Acquired Group") and the outstanding loans and advances owing by the CITIC Acquired Group to CITIC Limited and its subsidiaries ("CITIC Group") from CITIC Pacific Limited and CITIC Corporation Limited (both wholly-owned subsidiaries of CITIC Limited, as the "CITIC Sellers") (the "CITIC Assets Acquisition").

As the Company and CITIC Limited are state-owned entities and are under common control of the State Council of the PRC, the CITIC Assets Acquisition was accounted for as a business combination under common control. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2016 were prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "*Merger Accounting for Common Control Combinations*" issued by the HKICPA, as if the CITIC Acquired Group had been combined with the Group from the earliest date when the CITIC Acquired Group first came under the control of the State Council of the PRC.

(b) Significant Accounting Policies

Basis of Consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests
Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests and the fair value of the consideration paid or received is recognised directly in retained profits and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "*Financial Instruments: Recognition and Measurement*" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations – common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interests.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous year end date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Business combinations – acquisition method

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "*Income Taxes*" and HKAS 19 "*Employee Benefits*" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "*Share-based Payment*" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Business combinations – acquisition method *(continued)*
Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 "*Financial Instrument Recognition and Measurement*", or HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Separate Financial Statements
Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Cost includes direct attributable costs of investments.

The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Interests in Associates and Joint Ventures
An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "*Impairment of Assets*" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence or joint control over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture.

If an interest in an associate becomes an interest 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.

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group. When the Group disposes a business to its associate or joint venture, the entire gain or loss on disposal is recognised in profit or loss as a loss of control of a business.

Accounting policies of associates and joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management. The Group's management, who is responsible for resource allocation and assessment of performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

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

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

For a transfer from stock of properties to investment properties (which is evidenced by commencement of operating leases) that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Property, Plant and Equipment

Property, plant and equipment including land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Leasehold Land and Building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump- sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Impairment Losses on Tangible and Intangible Assets other than Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

The Group's financial assets are classified into loans and receivables, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, fellow subsidiaries, associates, joint ventures, non-controlling shareholders and CITIC Group, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale financial assets, comprising investments in syndicated property project companies and available-for-sale investments, are carried at fair value and at cost at the end of the reporting period respectively. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. (see accounting policy on impairment of financial assets below).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables and deteriorated value in collateral assets.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities (including trade and other payables, amounts due to CITIC Group, associates, joint ventures, non-controlling shareholders, subsidiaries and fellow subsidiaries, bank and other borrowings and notes payable) are measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group or the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group or the Company measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Inventories

Inventories, representing raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Stock of Properties

Completed properties and properties under development are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other directly attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Borrowing Costs *(continued)*
Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the Group's subsidiaries had borrowed funds in their functional currencies, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

Foreign Currencies
In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

The Group as Lessor
Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as Lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

(i) *Retirement Benefits*

The Group participates in mandatory provident fund schemes in Hong Kong which are defined contribution plan generally funded through payments to trustee-administered funds. The assets of the scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in mainland China, the subsidiaries in mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of mainland China is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Group's contributions to the scheme are expensed as incurred.

(ii) *Employee Leave Entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave arc not recognised until the time of leave.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Property Development
Revenue from property development in the ordinary course of business are recognised when all the following criteria are satisfied:

(1) the significant risks and rewards of ownership of the properties are transferred to the buyers;

(2) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

(3) the amount of revenue can be measured reliably;

(4) it is probable that the economic benefits associated with the transaction will flow to the Group; and

(5) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers prior to meeting the revenue recognition criteria are included in the consolidated statement of financial position under current liabilities.

Property Rentals
Rental income from properties under operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Construction Contract Income
When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract cost.

Hotel Operation, Real Estate Management Services and Building Design Consultancy Services
Revenue from hotel operation, the provision of real estate management services and building design consultancy services is recognised when services are provided.

Dividend Income
Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

For distribution of non-cash assets as a dividend to the Company's shareholders, the Group measures the dividend payable at the fair value of the assets being distributed. When the Group settles the dividend payable, the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

Share-based Payments

Share-based Payment Transactions Among Group Entities

Incentive shares granted by an intermediate holding company to the employees of the Group are treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(a) Fair Value of Investment Properties

Investment properties are carried at 31 December 2017 at their fair values of HK$97,377,389,000 (2016: HK$67,093,181,000). The fair values were based on a valuation on these properties conducted by independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss recognised in profit or loss.

(b) Impairment of Property Portfolio Held by the Group's Associates and Joint Ventures

Management assessed the recoverability of the Group's net investments in a listed associate, unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects in the PRC with carrying amounts of HK$10,268,329,000 (2016: HK$14,869,579,000), HK$11,617,794,000 (2016: HK$4,554,302,000) and HK$21,289,637,000 (2016: HK$17,316,472,000) respectively included in the consolidated statement of financial position at 31 December 2017.

The assessment on unlisted associates and joint ventures was based on an estimation of the net realisable value of the underlying properties of the associates and joint ventures which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

The recoverable amount of the investment in the listed associate is evaluated based on the performance and financial position of the associate, and return on investments including the listed associate's share price performance and dividend yield.

Judgement is required in assessing the ultimate recoverability of the investment.

(c) Impairment of Stock of Properties

Included in the consolidated statement of financial position at 31 December 2017 is stock of properties with an aggregate carrying amount of HK$335,541,563,000 (2016: HK$261,689,777,000). Management assessed the recoverability of the amount based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying stock of properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Land Appreciation Tax ("LAT")

LAT is levied on the appreciation of land value, being the proceeds from the sales of properties less deductible expenditure including land costs, borrowing costs and all property development expenditure.

The subsidiaries engaging in property development business in the PRC are subject to LAT, which have been included in the tax expenses. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the tax expense and provisions for LAT in the period in which such determination is made.

(e) Revenue Recognition

Management made judgements on whether significant risks and rewards of ownership of properties are transferred to the purchasers, and whether the economic benefits associated with the property sales transaction will flow to the Group and are arising in the course of the Group's ordinary activities. These judgements would affect the timing and measurement of revenue recognition and the carrying value of the completed properties held for sale.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which mainly includes bank and other borrowings and notes payable disclosed in Notes 34 and 35 respectively, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, other reserves and retained profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company assess budgets of major projects taking into account of the provision of funding. Based on the operating budgets, the directors of the Company consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group actively reviews and monitors its capital structure on a regular basis to maintain a healthy net gearing ratio. For this purpose the Group defines net debt as total debt less bank balances and cash. Equity attributable to owners of the Company comprise share capital and reserves attributable to the Company's owners as shown in the consolidated statement of financial position.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. CAPITAL RISK MANAGEMENT *(continued)*

The net gearing ratio at the end of the reporting period were as follows:

	2017 HK$'000	2016 HK$'000
Bank and other borrowings	**103,580,691**	96,245,128
Notes payable	**74,657,746**	77,575,412
Total debt	**178,238,437**	173,820,540
Less: Bank balances and cash	**(104,050,615)**	(157,161,732)
Net debt	**74,187,822**	16,658,808
Equity attributable to owners of the Company	**265,694,287**	222,248,442
Net gearing ratio	**27.9%**	7.5%

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3.

a. Categories of Financial Instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables at amortised cost (including bank balances and cash)	**144,147,511**	192,475,318
Available-for-sale financial assets (including investments in syndicated property project companies and available-for-sale investments)	**140,054**	171,423
Financial liabilities		
Liabilities at amortised cost	**247,129,191**	226,977,265

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include available-for-sale financial assets, bank and other borrowings, notes payable, trade and other receivables, trade and other payables, amounts due from/to affiliated companies and bank balances. Details of the financial instruments are disclosed in respective notes.

Management monitors and manages the financial risks relating to the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and currency risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's exposure to these kinds of risks or the manner in which it manages and measures these risks.

(i) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and changes in foreign exchange rates.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures amounting to HK$86,296,354,000 (2016: HK$58,236,508,000), HK$2,112,253,000 (2016: HK$502,598,000) and HK$12,538,221,000 (2016: HK$9,351,118,000), respectively. The variable-rate bank and other borrowings with original maturities ranging from one to five years are for financing development of property projects. Increase in interest rates would increase interest expenses. Management monitors interest rate exposure on dynamic basis and will consider hedging significant interest rate exposure should the need arise. Management considers the exposure to interest rate risk in relation to bank deposits is insignificant due to the low level of bank interest rate.

The Group's fair value interest rate risk relates primarily to its corresponding fixed-rate bank and other borrowings, notes payable, amounts due to associates and a joint venture, amounts due to non-controlling shareholders, and net amounts due from CITIC Group amounting to HK$17,284,337,000 (2016: HK$38,008,620,000), HK$74,657,746,000 (2016: HK$77,575,412,000), HK$1,524,096,000 (2016: HK$627,100,000), HK$3,720,155,000 (2016: HK$2,083,542,000) and HK$Nil (2016: HK$470,480,000), respectively. Management will also consider hedging significant interest rate exposure should the need arise.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) Market risk *(continued)*

Interest rate risk sensitivity analysis

The analysis is prepared assuming the amount of assets/liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (2016: 100) basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year would decrease/increase by HK$38,963,000 (2016: HK$115,113,000) after capitalising finance costs in properties under development and investment properties under construction of HK$719,741,000 (2016: HK$378,767,000). This is mainly attributable to the Group's exposure to cash flow interest rates on its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The Group's assets are mainly RMB-denominated assets, however, HK$-denominated bank borrowings, US$-denominated and EUR-denominated notes payable in aggregate account for 48.7% of the Group's interest bearing debts. Taking into consideration that RMB is still subject to volatility in the short-term but would become stable in the medium term, the foreign exchange risk should be short-term and relatively controllable. Management manages its foreign currency risk by closely reviewing the movement of the foreign currency rates and considers hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	2017 HK$'000	2016 HK$'000
Assets		
HK$	**13,255,870**	7,764,227
United States dollars ("US$")	**6,720,415**	16,613,386
Liabilities		
HK$	**35,066,100**	27,479,622
US$	**42,459,040**	48,245,342
Euro ("EUR")	**9,337,762**	8,100,911

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) Market risk *(continued)*

Currency risk sensitivity analysis

The Group mainly exposes to the currency risk of US$, HK$ and EUR. The following details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies of group entities against US$, HK$ and EUR respectively. 5% (2016: 5%) is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates. The sensitivity analysis includes amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable in currencies other than the functional currencies of the group entities.

For a 5% (2016: 5%) decrease of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would decrease by HK$2,707,105,000 (2016: HK$1,913,474,000) after increase in capitalising of exchange losses in stock of properties of HK$Nil (2016: HK$22,000,000).

For a 5% (2016: 5%) increase of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would increase by HK$2,459,529,000 (2016: HK$1,533,474,000) after decrease in capitalising of exchange losses in stock of properties of HK$247,576,000 (2016: HK$402,000,000).

This is mainly attributable to the Group's exposure to outstanding amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(ii) Credit risk

At 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group are arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amounts of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 42.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

Other than concentration of credit risk on liquid funds as well as amounts due from associates, joint ventures and non-controlling shareholders, the Group does not have any other significant concentration of credit risk. The Group would closely monitor the financial positions including the net assets backing of the associates, joint ventures and non-controlling shareholders, which are mainly engaged in property development business in Hong Kong and the PRC and their property development projects are profitable. In addition, the Group reviews the recoverable amount of the individual debt to ensure that adequate impairment losses are made for the irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is mitigated. Trade receivables consist of a large number of customers spreading across diverse geographical areas.

For properties that are pre-sold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchases of the properties for an amount up to 70% of the purchase price of the individual property. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are secured by the properties with current market price higher than the guaranteed amounts, management considers it would recover any loss incurred arising from the guarantee provided by the Group.

(iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on bank and other borrowings and notes payable as a significant source of liquidity. At 31 December 2017, the Group maintains substantial undrawn committed revolving banking facilities to allow for flexibility in meeting its funding requirements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(iii) Liquidity risk *(continued)*

The following table analyses the contractual undiscounted cash flows of the Group's financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the earliest date the Group is required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from flat rate at the end of the reporting period. The undiscounted amounts are subject to changes if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017						
Trade and other payables	**47,193,450**	**3,213,744**	**1,331,815**	**87,290**	**51,826,299**	**51,826,299**
Amounts due to fellow subsidiaries	**756,994**	–	–	–	**756,994**	**756,994**
Amounts due to associates	**2,033,114**	–	–	–	**2,033,114**	**2,028,855**
Amounts due to joint ventures	**5,436,991**	–	–	–	**5,436,991**	**5,425,631**
Amounts due to non-controlling shareholders	**5,413,282**	**4,048,307**	–	–	**9,461,589**	**8,852,975**
Bank and other borrowings	**17,450,074**	**14,147,476**	**81,715,541**	**3,206,051**	**116,519,142**	**103,580,691**
Notes payable	**6,686,611**	**21,258,516**	**35,471,186**	**39,533,698**	**102,950,011**	**74,657,746**
Financial guarantee contracts	**51,740,067**	**1,200,000**	**916,092**	–	**53,856,159**	–
	136,710,583	**43,868,043**	**119,434,634**	**42,827,039**	**342,840,299**	**247,129,191**
At 31 December 2016						
Trade and other payables	41,499,088	2,178,577	1,092,099	45,437	44,815,201	44,815,201
Amounts due to fellow subsidiaries	678,296	–	–	–	678,296	678,296
Amounts due to associates	1,402,372	–	–	–	1,402,372	1,400,177
Amounts due to joint ventures	2,158,084	–	–	–	2,158,084	2,158,084
Amounts due to non-controlling shareholders	3,237,937	955,181	–	–	4,193,118	3,839,122
Amounts due to CITIC Group	265,845	–	–	–	265,845	265,845
Bank and other borrowings	37,841,577	19,109,751	45,155,755	3,225,410	105,332,493	96,245,128
Notes payable	8,415,644	19,309,440	37,387,113	37,416,997	102,529,194	77,575,412
Financial guarantee contracts	42,676,943	457,615	27,996	–	43,162,554	–
	138,175,786	42,010,564	83,662,963	40,687,844	304,537,157	226,977,265

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amounts if that amounts are claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee that the guaranteed financial receivables held by the counterparty suffers credit losses.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

c. Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of investments in syndicated property project companies is estimated with reference to the fair value of the properties held by these companies;

- The fair values of financial guarantee contracts are determined using discounted cash flow models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss given the default; and

- The fair values of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Other than the notes payable that is disclosed in Note 35, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurements at 31 December 2017 categorised into			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Recurring fair value measurements				
Investments in syndicated property project companies	–	–	24,212	24,212
	–	–	24,212	24,212

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

c. Fair Value *(continued)*

Fair value measurements recognised in the consolidated statement of financial position *(continued)*

	Fair value measurements at 31 December 2016 categorised into			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Recurring fair value measurements				
Investments in syndicated property project companies	–	–	24,212	24,212
	–	–	24,212	24,212

Information about Level 3 fair value measurements

	Fair value at 31 December 2017 ***HK$'000***	**Valuation techniques**	**Significant unobservable inputs**	**Range**
Syndicated property project companies	**24,212**	**Direct comparison**	**Comparable selling prices**	**HK$4,200 – HK$6,000 per square foot**

	Fair value at 31 December 2016 *HK$'000*	Valuation techniques	Significant unobservable inputs	Range
Syndicated property project companies	24,212	Direct comparison	Comparable selling prices	HK$4,200 – HK$6,000 per square foot

The fair value measurement is positively correlated to the comparable selling price.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS *(continued)*

c. Fair Value *(continued)*

Information about Level 3 fair value measurements *(continued)*
The movements during the year in the balances of these Level 3 fair value measurements are as follows:

	HK$'000
At 1 January 2016	4,035,326
Acquisition of subsidiaries *(Note 39(b))*	(2,180,755)
Disposals	(1,830,359)
At 31 December 2016 and 2017	24,212

The Group reviews the valuation performed by the internal valuer for financial reporting purpose. The valuer reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least twice a year. There were no changes in valuation techniques during the year.

The sensitivity analysis is not performed as management considers that the Group is not exposed to significant fair value risk at the end of the reporting period.

7. REVENUE

Revenue comprises proceeds from property development, property rentals and other income. An analysis of the Group's revenue for the year is as follows:

	2017 **HK$'000**	2016 *HK$'000*
Proceeds from property development activities	**162,139,770**	159,891,147
Property rentals	**2,450,060**	2,137,167
Others *(Note)*	**1,455,133**	2,040,214
Revenue	**166,044,963**	164,068,528
Business tax	**(2,072,793)**	(5,351,547)
Net revenue	**163,972,170**	158,716,981

Note: Others mainly comprise revenues from hotel operation, provision of real estate management services, and construction and building design consultancy services.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's management for the purposes of resources allocation and assessment of performance. The Group's operating and reportable segments under HKFRS 8 and the types of revenue are as follows:

Property development	–	proceeds from property development activities
Property investment	–	property rentals
Other operations	–	revenue from hotel operation, real estate management services, and construction and building design consultancy services

Segment Revenue and Results

The following is an analysis of the Group's revenue and results (including share of results of associates and joint ventures) by reportable segments:

Year ended 31 December 2017

	Property development *HK$'000*	Property Investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment revenue				
– from external customers	**162,139,770**	**2,450,060**	**1,455,133**	**166,044,963**
Business tax	**(2,023,024)**	**(39,582)**	**(10,187)**	**(2,072,793)**
Net revenue	**160,116,746**	**2,410,478**	**1,444,946**	**163,972,170**
Segment profit (including share of profits of associates and joint ventures)	**51,445,746**	**10,000,620**	**273,085**	**61,719,451**

Year ended 31 December 2016

	Property development *HK$'000*	Property Investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment revenue				
– from external customers	159,891,147	2,137,167	2,040,214	164,068,528
Business tax	(5,247,187)	(88,446)	(15,914)	(5,351,547)
Net revenue	154,643,960	2,048,721	2,024,300	158,716,981
Segment profit (including share of profits of associates and joint ventures)	46,944,834	11,881,858	31,063	58,857,755

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Segment Revenue and Results *(continued)*

Reconciliation of reportable segment profits to the consolidated profit before tax

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

Segment profits include profits from subsidiaries and share of profits of associates and joint ventures. This represents the profit earned by each segment without allocation of interest income on bank deposits and receivables, corporate expenses, finance costs and net foreign exchange gains/(losses) recognised in the consolidated income statement. This is the measure reported to the management of the Group for the purposes of resources allocation and performance assessment.

	2017 *HK$'000*	2016 *HK$'000*
Reportable segment profits	**61,719,451**	58,857,755
Unallocated items:		
Interest income on bank deposits and receivables	**1,155,549**	1,949,117
Corporate expenses	**(525,226)**	(376,657)
Finance costs	**(1,393,544)**	(2,055,956)
Net foreign exchange gains/(losses) recognised in the consolidated income statement	**2,463,069**	(1,272,458)
Consolidated profit before tax	**63,419,299**	57,101,801

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

At 31 December 2017

	Property development *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Segment total** *HK$'000*
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	**438,739,799**	**98,197,287**	**4,417,084**	**541,354,170**
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	**(176,079,192)**	**(12,645,880)**	**(4,897,846)**	**(193,622,918)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 December 2016

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	343,045,092	67,889,162	3,193,291	414,127,545
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	(158,997,696)	(8,405,234)	(2,642,448)	(170,045,378)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than bank balances and cash; and
- all liabilities are allocated to reportable segments other than bank and other borrowings and notes payable.

	2017 ***HK$'000***	2016 *HK$'000*
Reportable segment assets	**541,354,170**	414,127,545
Unallocated items:		
Bank balances and cash	**104,050,615**	157,161,732
Consolidated total assets	**645,404,785**	571,289,277
Reportable segment liabilities	**(193,622,918)**	(170,045,378)
Unallocated items:		
Bank and other borrowings	**(103,580,691)**	(96,245,128)
Notes payable	**(74,657,746)**	(77,575,412)
Consolidated total liabilities	**(371,861,355)**	(343,865,918)

Notes:

(a) Segment assets include interests in and amounts due from associates of HK$8,232,345,000 (2016: HK$5,512,064,000) and HK$14,478,488,000 (2016: HK$14,529,979,000) and interests in and amounts due from joint ventures of HK$12,405,070,000 (2016: HK$10,526,289,000) and HK$9,578,197,000 (2016: HK$7,570,878,000) respectively.

(b) Segment liabilities include amounts due to associates and joint ventures of HK$2,028,855,000 and HK$5,425,631,000 (2016: HK$1,400,177,000 and HK$2,158,084,000) respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Other Segment Information

Year ended 31 December 2017

	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	49,606	4,568,227	12,968	4,630,801
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	–	2,140,171	–	2,140,171
Gain on acquisition of subsidiaries	–	326,267	–	326,267
Gain on disposal of property, plant and equipment	9,298	210	445	9,953
Gain on disposal of investment properties	–	40,782	–	40,782
Depreciation and amortisation	140,655	1,829	65,974	208,458
Gain arising from changes in fair value of investment properties	–	5,946,121	–	5,946,121
Interest income on amounts due from associates and joint ventures	318,206	–	–	318,206
Share of profits of associates	1,164,116	–	–	1,164,116
Share of profits of joint ventures	774,352	–	–	774,352

Year ended 31 December 2016

	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	872,668	2,544,529	22,441	3,439,638
Gain/(loss) on disposal of property, plant and equipment	143,825	17	(361)	143,481
Gain on disposal of investment properties	–	1,028,432	–	1,028,432
Depreciation and amortisation	259,208	4,105	93,657	356,970
Gain arising from changes in fair value of investment properties	–	7,722,671	–	7,722,671
Interest income on amounts due from associates and joint ventures	307,136	–	–	307,136
Impairment losses in respect of goodwill	1,903,104	–	–	1,903,104
Share of profits of associates	476,682	–	–	476,682
Share of profits of joint ventures	775,770	–	–	775,770

Note: *Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. SEGMENT INFORMATION *(continued)*

Revenue from Major Products and Services

An analysis of the Group's revenue for the year from its major products and services is set out in Note 7.

Information about Geographical Areas

The Group's property development, property investment and other operations are carried out in Hong Kong, Macau, other regions in the PRC and the United Kingdom. The following table provides a geographical analysis of the Group's revenue from external customers (based on where the products and services are delivered or provided) and non-current assets (based on the location of assets).

	Revenue by geographical market		Non-current assets *(Note)*	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC				
Hua Nan Region	**50,320,061**	54,725,726	**15,660,762**	12,693,086
Hua Dong Region	**26,651,123**	28,518,574	**21,676,621**	8,396,764
Hua Bei Region	**41,851,598**	41,572,958	**40,247,831**	28,853,510
Northern Region	**22,511,398**	18,744,106	**2,982,510**	2,622,338
Western Region	**10,809,107**	11,321,252	**11,384,651**	9,905,335
The United Kingdom	**380,586**	391,484	**7,117,440**	6,436,700
Hong Kong and Macau	**13,521,090**	8,794,428	**2,845,505**	2,704,353
	166,044,963	164,068,528	**101,915,320**	71,612,086
Business tax	**(2,072,793)**	(5,351,547)	**–**	–
	163,972,170	158,716,981	**101,915,320**	71,612,086

Note: Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.

Information about Major Customers

There was no customer who accounted for over 10% of the Group's revenue for both years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

9. OTHER INCOME AND GAINS, NET

	2017 HK$'000	2016 HK$'000
Other income and gains, net include:		
Interest on bank deposits and receivables	1,155,549	1,949,117
Interest income on amounts due from associates and joint ventures	381,206	307,136
Total interest income	1,536,755	2,256,253
Gain on disposal of property, plant and equipment	9,953	143,481
Net foreign exchange gains/(losses)	2,138,825	(2,575,458)
Add: Exchange losses arising from foreign currency borrowings capitalised	324,244	1,303,000
Net foreign exchange gains/(losses) recognised in the consolidated income statement	2,463,069	(1,272,458)

10. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank and other borrowings and notes payable	7,388,248	8,705,618
Other finance costs	106,620	115,253
Total finance costs	7,494,868	8,820,871
Less: Amount capitalised	(6,101,324)	(6,764,915)
	1,393,544	2,055,956

Finance costs capitalised during the year are calculated by applying a weighted average capitalisation rate of 3.71% (2016: 4.35%) per annum to expenditure on qualifying assets including the effect of capitalisation of exchange losses (Note 9).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11. INCOME TAX EXPENSES

	2017 **HK$'000**	2016 HK$'000
Current tax:		
PRC Corporate Income Tax ("CIT")	**10,976,364**	8,788,070
LAT	**9,433,927**	7,775,675
PRC withholding income tax	**145,716**	595,252
Hong Kong profits tax	**300,930**	119,140
Macau income tax	**42,854**	2,522
Others	**7,887**	6,170
	20,907,678	17,286,829
(Over)/under-provision in prior years:		
CIT	**(1,379)**	–
Hong Kong profits tax	**37,872**	–
Macau income tax	**(2,522)**	(3,690)
	33,971	(3,690)
Deferred tax *(Note 36)*:		
Current year	**335,535**	1,427,886
Total	**21,277,184**	18,711,025

Under the Law of PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of PRC subsidiaries is 25% (2016: 25%).

The provision for LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year. Macau income tax is calculated at the prevailing tax rate of 12% (2016: 12%) in Macau.

Details of deferred tax are set out in Note 36.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

11. INCOME TAX EXPENSES *(continued)*

The income tax expenses for the year are reconciled to the profit before tax per the consolidated income statement as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**63,419,299**	57,101,801
Tax at the applicable tax rate of 25% (2016: 25%)	**15,854,825**	14,275,450
PRC withholding income tax	**145,716**	595,252
LAT	**9,433,927**	7,775,675
Tax effect of LAT	**(2,358,482)**	(1,943,919)
Tax effect of share of results of associates and joint ventures	**(484,617)**	(313,113)
Tax effect of expenses not deductible for tax purpose	**353,629**	933,569
Tax effect of income not taxable for tax purpose	**(1,551,545)**	(1,999,740)
Under/(over)-provision in prior years	**33,971**	(3,690)
Tax effect of tax losses not recognised	**537,145**	770,030
Utilisation of tax losses previously not recognised	**(516,361)**	(67,111)
Effect of different tax rates	**(213,538)**	(1,261,423)
Others	**42,514**	(49,955)
Income tax expenses for the year	**21,277,184**	18,711,025

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

12. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging/(crediting):		
Auditors' remuneration		
Audit services	**11,940**	12,150
Non-audit services	**1,264**	1,865
In relation to the CITIC Assets Acquisition	**–**	10,545
Business tax	**2,072,793**	5,351,547
Depreciation of property, plant and equipment	**192,453**	346,706
Amortisation of prepaid lease payments for land	**16,005**	10,264
Staff costs including benefits and interests of directors *(Note)*	**3,047,021**	2,842,002
Rental expenses in respect of land and buildings under operating leases	**78,071**	79,911
Share of tax of		
Associates	**822,745**	461,453
Joint ventures	**318,249**	277,496
Cost of stock of properties recognised as expenses	**108,245,542**	111,284,866
Cost of inventories recognised as expenses	**356,294**	333,490
Rental income in respect of investment properties under operating leases, net of outgoings of HK$445,488,000 (2016: HK$326,456,000)	**(1,964,990)**	(1,722,265)

Note: The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees.

The employees of the Group's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme.

The total cost recognised in the consolidated income statement of HK$120,571,000 (2016: HK$107,319,000), which has been included in staff costs disclosed above, represents contributions payable to the schemes by the Group in respect of the current accounting period.

Contributions totaling HK$6,743,000 (2016: HK$4,784,000) were payable to the schemes at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. BENEFITS AND INTERESTS OF DIRECTORS

		Year ended 31 December 2017 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Yan Jianguo	*(v)*	–	4,184	1,000	16	5,200
Xiao Xiao	*(i)*	–	1,666	1,497	9	3,172
Luo Liang		–	2,324	7,070	18	9,412
Nip Yun Wing		–	3,348	2,350	18	5,716
Non-executive Director						
Chang Ying	*(iii)*	300	–	–	–	300
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,800	11,522	11,917	61	25,300

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

		Year ended 31 December 2016 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Xiao Xiao	*(i)*	–	5,588	2,847	18	8,453
Hao Jian Min	*(i)*	–	5,472	2,372	15	7,859
Chen Yi	*(ii)*	–	405	–	2	407
Luo Liang		–	1,683	7,636	18	9,337
Nip Yun Wing		–	3,191	3,500	18	6,709
Non-executive Directors						
Chang Ying	*(iii)*	89	–	–	–	89
Zheng Xuexuan	*(iv)*	239	–	–	–	239
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,828	16,339	16,355	71	34,593

Notes:

(i) Mr. Hao resigned as an Executive Director, the Chairman and Chief Executive Officer of the Company effective from 15 November 2016 and Mr. Xiao was appointed as the Chairman and Chief Executive Officer on the same date. Mr. Xiao then resigned as the Chief Executive Officer effective from 1 January 2017 and then resigned as the Chairman and an Executive Director effective from 13 June 2017.

(ii) Resigned effective from 19 January 2016

(iii) Appointed effective from 15 September 2016

(iv) Resigned effective from 19 October 2016

(v) Mr. Yan Jianguo was appointed as an Executive Director and the Chief Executive Officer of the Company effective from 1 January 2017. Mr. Yan was also appointed as the Chairman of the Company effective from 13 June 2017.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

The performance related bonus was determined based on the Group's performance for the year.

Of the five individuals with the highest emoluments in the Group, one (2016: two) was a director of the Company whose emoluments are included above. The emoluments of the remaining four (2016: three) individuals were set out in Note 44(b).

No directors waived any emoluments in both years ended 31 December 2017 and 2016.

No directors received any emoluments as inducement to join or upon joining the Company or as compensation for loss of office in both years ended 31 December 2017 and 2016.

During the year, Messrs Yan Jianguo, Xiao Xiao and Luo Liang held directorships in CSCEC, and/or its subsidiaries/associated companies, which engaged in construction, property development and property investment and related businesses.

Save as disclosed above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during both years ended 31 December 2017 and 2016.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2017 ***HK$'000***	2016 *HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**40,766,835**	37,020,638

	2017 ***'000***	2016 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**10,956,201**	10,183,879

Diluted earnings per share were the same as the basic earnings per share for both the years ended 31 December 2017 and 2016 as there were no dilutive potential ordinary shares in existence during both years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year		
Interim dividend paid in respect of financial year ended 31 December 2017 of HK35 cents (2016: financial year ended 31 December 2016 interim dividend of HK35 cents) per share	**3,834,671**	3,834,671
Final dividend paid in respect of financial year ended 31 December 2016 of HK42 cents (2016: financial year ended 31 December 2015 final dividend of HK41 cents) per share	**4,601,605**	4,042,838
	8,436,276	7,877,509

The final dividend of HK45 cents in respect of the financial year ended 31 December 2017 (2016: final dividend of HK42 cents in respect of the financial year ended 31 December 2016) per share, amounting to HK$4,930,291,000 (2016: HK$4,601,605,000) has been proposed by the Board and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed, which was calculated based on the number of ordinary shares in issue at the date of approval of the consolidated financial statements, has not been recognised as a liability in the consolidated financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES

	Completed			Under construction	
	The PRC	Hong Kong & Macau	The United Kingdom	The PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FAIR VALUE					
At 1 January 2016	40,872,800	4,712,300	6,083,375	13,798,561	65,467,036
Additions	32,733	–	1,623,901	887,832	2,544,466
Gain arising from changes in fair value of investment properties	5,093,806	601,082	8,775	2,019,008	7,722,671
Transfer upon completion	5,297,949	–	–	(5,297,949)	–
Transfer from stock of properties	1,914,606	731,618	–	1,990,938	4,637,162
Transfer to self-used properties	(1,048,677)	–	–	–	(1,048,677)
Disposals	(3,185,528)	–	–	–	(3,185,528)
Disposal of subsidiaries *(Note 38)*	(9,525)	(3,721,700)	–	–	(3,731,225)
Exchange realignment	(2,817,513)	–	(1,279,351)	(1,215,860)	(5,312,724)
At 31 December 2016	46,150,651	2,323,300	6,436,700	12,182,530	67,093,181
Additions	**27,023**	**–**	**–**	**4,540,646**	**4,567,669**
Gain arising from changes in fair value of investment properties	**4,590,080**	**166,200**	**–**	**1,189,841**	**5,946,121**
Transfer upon completion	**4,905,340**	**–**	**–**	**(4,905,340)**	**–**
Transfer from stock of properties	**3,839,687**	**–**	**–**	**401,311**	**4,240,998**
Disposals	**(264,957)**	**(10,000)**	**–**	**–**	**(274,957)**
Acquisition of subsidiaries *(Note 39)*	**9,780,396**	**–**	**–**	**–**	**9,780,396**
Exchange realignment	**4,546,206**	**–**	**680,740**	**797,035**	**6,023,981**
At 31 December 2017	**73,574,426**	**2,479,500**	**7,117,440**	**14,206,023**	**97,377,389**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES *(continued)*

Valuation Processes of the Group

The fair values of the investment properties held by the Group at 31 December 2017 have been arrived on the basis of a valuation carried out on that date by Cushman & Wakefield Limited and CBRE Limited.

The valuers mentioned above are independent firms of professional valuers not connected with the Group, who have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The Group's finance team reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least twice a year.

At each financial year end the finance team:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuers.

All of the Group's investment properties held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Fair Value Measurements Using Significant Unobservable Inputs

The valuation for completed investment properties was arrived at by considering the capitalised income derived from the existing tenancies and the reversionary potential of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The valuation for investment properties under construction was arrived at by making reference to comparable selling prices, as available in the relevant market. The estimated construction costs to complete the development and estimated developer's profits at the date of valuation are also taken into account.

There was no change to the valuation techniques during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs

Description	Fair value at 31 December 2017 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	14,206,023	Residual method	Estimated selling prices	RMB8,000 – RMB80,000 per square meter
			Estimated costs to completion	RMB3,100 – RMB7,900 per square meter
			Estimated developer's profits	7.0% – 28.0%
Completed investment properties in the PRC	73,574,426	Investment approach	Prevailing market rents	RMB18 – RMB797 per square meter per month
			Reversionary yield	4.0% – 8.25%
Completed investment properties in Hong Kong and Macau	2,479,500	Investment approach	Prevailing market rents	HK$15 – HK$400 per square foot per month
			Reversionary yield	2.1% – 4.3%
Completed investment properties in the United Kingdom	7,117,440	Investment approach	Prevailing market rents	British Pound ("GBP") 43 – GBP63 per square foot per year
			Capitalisation rate	4.4% – 4.9%

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs *(continued)*

Description	Fair value at 31 December 2016 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	12,182,530	Residual method	Estimated selling prices	RMB11,000 – RMB78,000 per square meter
			Estimated costs to completion	RMB4,600 – RMB8,200 per square meter
			Estimated developer's profits	7.0% – 30.0%
Completed investment properties in the PRC	46,150,651	Investment approach	Prevailing market rents	RMB19 – RMB755 per square meter per month
			Reversionary yield	5.0% – 8.75%
Completed investment properties in Hong Kong and Macau	2,323,300	Investment approach	Prevailing market rents	HK$15 – HK$400 per square foot per month
			Reversionary yield	2.3% – 5.0%
Completed investment properties in the United Kingdom	6,436,700	Investment approach	Prevailing market rents	GBP46 – GBP62 per square foot per year
			Capitalisation rate	4.4% – 5.0%

Estimated costs to completion and developer's profit required are estimated by the independent valuers based on market conditions at the end of the reporting period. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The lower the costs and developer's profits, the higher the fair value.

Estimated selling prices and prevailing market rents are estimated based on the independent valuers' view of recent lettings or selling transactions within the subject properties and other comparable properties. The higher the selling prices and rents, the higher the fair value.

Reversionary yield and capitalisation rate are estimated by the independent valuers based on the risk profile of the properties being valued and the market conditions. The lower the yield and capitalisation rate, the higher the fair value.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Hotel buildings *HK$'000*	Plant, machinery and equipment *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Construction-in-progress *HK$'000*	Total *HK$'000*
COST						
At 1 January 2016	1,995,983	1,889,377	432,385	1,184,265	302,371	5,804,381
Additions	50,207	35,625	6,335	195,142	607,863	895,172
Acquisition of subsidiaries *(Note 39)*	–	–	–	18,431	–	18,431
Transfer from stock of properties	41,106	–	–	–	–	41,106
Transfer from investment properties	655,620	393,057	–	–	–	1,048,677
Disposals	(252,854)	–	(17,939)	(38,683)	–	(309,476)
Disposal of subsidiaries *(Note 38)*	(396,651)	–	(22,429)	(502,727)	(907,657)	(1,829,464)
Exchange realignment	(63,951)	(127,828)	(22,975)	(52,692)	(2,577)	(270,023)
At 31 December 2016	2,029,460	2,190,231	375,377	803,736	–	5,398,804
Additions	**6,959**	**15,966**	**9,758**	**30,449**	**–**	**63,132**
Acquisition of subsidiaries *(Note 39)*	**–**	**–**	**–**	**286**	**–**	**286**
Disposals	**(27,410)**	**–**	**(16,133)**	**(57,601)**	**–**	**(101,144)**
Disposal of subsidiaries *(Note 38)*	**–**	**–**	**(3,674)**	**(50,303)**	**–**	**(53,977)**
Exchange realignment	**66,907**	**144,524**	**25,412**	**52,605**	**–**	**289,448**
At 31 December 2017	**2,075,916**	**2,350,721**	**390,740**	**779,172**	**–**	**5,596,549**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold land and buildings HK$'000	Hotel buildings HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction-in-progress HK$'000	Total HK$'000
DEPRECIATION						
At 1 January 2016	390,295	304,859	202,855	778,243	–	1,676,252
Provided for the year	53,507	173,480	26,686	93,033	–	346,706
Acquisition of subsidiaries *(Note 39)*	–	–	–	10,702	–	10,702
Eliminated on disposals	(89,278)	–	(433)	(28,152)	–	(117,863)
Disposal of subsidiaries *(Note 38)*	(68,330)	–	(19,532)	(222,660)	–	(310,522)
Exchange realignment	(15,108)	(29,445)	(10,791)	(37,634)	–	(92,978)
At 31 December 2016	271,086	448,894	198,785	593,532	–	1,512,297
Provided for the year	**35,181**	**42,798**	**27,197**	**87,277**	**–**	**192,453**
Eliminated on disposals	**(4,369)**	**–**	**(14,679)**	**(50,182)**	**–**	**(69,230)**
Disposal of subsidiaries *(Note 38)*	**–**	**–**	**(3,104)**	**(40,577)**	**–**	**(43,681)**
Exchange realignment	**15,414**	**36,830**	**12,713**	**42,157**	**–**	**107,114**
At 31 December 2017	**317,312**	**528,522**	**220,912**	**632,207**	**–**	**1,698,953**
CARRYING VALUES						
At 31 December 2017	**1,758,604**	**1,822,199**	**169,828**	**146,965**	**–**	**3,897,596**
At 31 December 2016	1,758,374	1,741,337	176,592	210,204	–	3,886,507

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land in Hong Kong	Over the lease terms
Leasehold land and buildings	Over the shorter of the term of the relevant lease or 25 years
Hotel buildings	20 years or over the remaining lease terms
Plant, machinery and equipment	3 to 10 years
Other assets	3 to 8 years

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

18. PREPAID LEASE PAYMENTS FOR LAND

	2017 HK$'000	2016 HK$'000
Land use rights in PRC	**592,206**	586,270
Analysed for reporting purposes as:		
Non-current assets	**575,810**	567,873
Current assets	**16,396**	18,397
	592,206	586,270

19. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Cost of investments		
Listed in Hong Kong	**2,862,287**	2,862,287
Unlisted	**2,581,975**	1,535,210
Share of post-acquisition profits and other comprehensive income, net of dividends received	**2,788,083**	1,114,567
	8,232,345	5,512,064
Market value of the interest in the listed associate	**3,611,541**	2,192,752

Set out below are the particulars of the principal associates at 31 December 2017 and 2016. In the opinion of the directors of the Company, to give details of other associates would result in particulars of excessive length.

Name of entity	Place of incorporation/ establishment	Place of operation	Proportion of nominal value of issued ordinary capital/registered capital indirectly held 2017	2016	Principal activities
China Overseas Grand Oceans Group Ltd. ("COGO")*	Hong Kong	PRC	**37.98%** (Note)	37.98%	Property development and investment, and investment holding
金茂投資(長沙)有限公司	PRC	PRC	**20%**	20%	Property development
廣州利合房地產開發有限公司	PRC	PRC	**20%**	20%	Property development
青島昌明置業有限公司	PRC	PRC	**22.5%**	–	Property development
長沙禧榮置業有限公司	PRC	PRC	**33%**	–	Property development
北京金良興業房地產開發有限公司	PRC	PRC	**40%**	–	Property development

* *COGO is listed in the Main Board of the Hong Kong Stock Exchange.*

Note: Pursuant to the irrevocable undertaking of the rights issue on the basis of one rights share for every two shares, the Group has taken up the full entitlement to the new shares under the rights issue of COGO on 5 February 2018. The Group's shareholding on COGO is 38.32% immediately after the completion of the rights issue.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN ASSOCIATES *(continued)*

All of these associates are accounted for using the equity method in these consolidated financial statements.

Set out below is the summarised financial information of associate of the Group at 31 December 2017 which, in the opinion of the directors of the Company, is material to the Group.

Summarised Statement of Financial Position

	COGO	
	2017	2016
	HK$'000	*HK$'000*
Current		
Bank balances and cash	**23,702,253**	15,158,177
Other current assets	**66,026,148**	61,660,831
Total current assets	**89,728,401**	76,819,008
Financial liabilities (excluding trade payables)	**(8,138,421)**	(18,752,265)
Other current liabilities (including trade payables)	**(46,385,993)**	(29,762,093)
Total current liabilities	**(54,524,414)**	(48,514,358)
Non-current		
Total non-current assets	**5,595,345**	4,534,707
Financial liabilities	**(22,459,969)**	(17,833,450)
Other liabilities	**(3,876,349)**	(3,820,607)
Total non-current liabilities	**(26,336,318)**	(21,654,057)
Net assets	**14,463,014**	11,185,300

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN ASSOCIATES *(continued)*

Summarised Statement of Comprehensive Income

	COGO	
	2017	2016
	HK$'000	*HK$'000*
Revenue	**20,277,831**	17,093,485
Depreciation and amortisation	**(54,807)**	(13,302)
Interest income	**178,146**	125,593
Interest expense	**(32,500)**	(18,450)
Profit before tax	**3,182,151**	2,114,551
Income tax expenses	**(1,920,417)**	(1,179,996)
Profit for the year	**1,261,734**	934,555
Other comprehensive income	**2,104,829**	(1,689,905)
Total comprehensive income	**3,366,563**	(755,350)
Dividends received from COGO	**26,001**	–

Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate

	COGO	
	2017	2016
	HK$'000	*HK$'000*
Opening net assets at 1 January	**11,185,300**	11,809,837
Profit for the year	**1,261,734**	934,555
Other comprehensive income and other reserves	**2,084,447**	(1,559,092)
Dividends paid	**(68,467)**	–
Closing net assets at 31 December	**14,463,014**	11,185,300
Non-controlling interests	**(785,872)**	(763,373)
Equity attributable to owners of the associate	**13,677,142**	10,421,927
Interest in associate %	**37.98%**	37.98%
Interest in associate	**5,194,579**	3,958,248
Carrying value at 31 December	**5,194,579**	3,958,248

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

19. INTERESTS IN ASSOCIATES *(continued)*

Aggregate Information of Associates that are not Individually Material

	2017 **HK$'000**	2016 HK$'000
The Group's share of profit	**684,609**	134,742
The Group's share of other comprehensive income	**147,199**	(111,069)
The Group's share of total comprehensive income	**831,808**	23,673
Aggregate carrying amount of the Group's interests in these associates	**3,037,766**	1,553,816

The contingent liabilities relating to the Group's interests in associates are disclosed in Note 42.

20. INTERESTS IN JOINT VENTURES

	2017 **HK$'000**	2016 HK$'000
Cost of investments, unlisted	**8,871,010**	8,214,910
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,534,060**	2,311,379
	12,405,070	10,526,289

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20. INTERESTS IN JOINT VENTURES *(continued)*

Set out below are the particulars of the principal joint ventures at 31 December 2017 and 2016. In the opinion of the directors of the Company, to give details of other joint ventures would result in particulars of excessive length. These joint ventures are established and operating in the PRC, unless otherwise indicated.

Name of entity	Proportion of nominal value of issued ordinary capital/registered capital held by the Group 2017	2016	Principal activities
重慶嘉江房地產開發有限公司	**60%^**	60%^	Property development
重慶豐盈房地產開發有限公司	**45%^**	45%^	Property development
重慶嘉益房地產開發有限公司	**50%**	50%	Property development
冠泉置業(寧波)有限公司	**50%**	50%	Property development
上海中海海軒房地產有限公司	**–** *(Note 39(a))*	50%	Property development
杭州中海雅戈爾房地產有限公司	**50%**	50%	Property development
寧波茶亭置業有限公司	**35%^**	35%^	Property development
蘇州中海雅戈爾房地產有限公司	**51%^**	51%^	Property development
蘇州依湖置業有限公司	**50%**	50%	Property development
華潤置地(太原)發展有限公司	**50%**	50%	Property development
成都錦府中建房地產開發有限公司	**50%**	50%	Property development
深圳市海清置業發展有限公司	**50%**	50%	Property development
中國南航建設開發有限公司	**51%^**	51%^	Property development
中信保利達地產(佛山)有限公司	**50%**	50%	Property development
西安合匯興尚置業有限公司	**50%**	–	Property development
西安鼎盛東越置業有限公司	**50%**	–	Property development
西安嘉潤榮成置業有限公司	**50%**	–	Property development
北京南悦房地產開發有限公司	**35%^**	–	Property development
Top Regent Holdings Limited (incorporated and operating in Hong Kong)	**33.3%^**	–	Property development

^ *The Group exercises joint control over decisions about the relevant activities require unanimous consent with other joint venture partners in accordance with joint venture agreements and/or the companies' Articles, and accordingly, these companies have been accounted for as joint ventures.*

All of these joint ventures are accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, there are no individually material joint ventures.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20. INTERESTS IN JOINT VENTURES *(continued)*

Aggregate information of joint ventures that are not individually material

	2017 HK$'000	2016 HK$'000
The Group's share of profit	**774,352**	775,770
The Group's share of other comprehensive income	**820,563**	(975,668)
The Group's share of total comprehensive income	**1,594,915**	(199,898)
Aggregate carrying amount of the Group's interests in these joint ventures	**12,405,070**	10,526,289

The contingent liabilities relating to the Group's interests in joint ventures are disclosed in Note 42.

21. INVESTMENTS IN SYNDICATED PROPERTY PROJECT COMPANIES AND AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Unlisted, at fair value		
Investments in syndicated property project companies *(Note a)*	**24,212**	24,212
	24,212	24,212
Unlisted, at cost less impairment *(Note b)*		
Investments in wealth management products	**15,410**	53,865
Available-for-sale equity investments	**100,432**	93,346
	115,842	147,211

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

21. INVESTMENTS IN SYNDICATED PROPERTY PROJECT COMPANIES AND AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

Notes:

(a) *The investments represent the Group's interests in the following syndicated property project companies which are carried at fair value at the end of the reporting period as estimated by the directors of the Company by reference to the fair value of the properties held by these companies.*

The syndicated property project companies are incorporated and operating in Hong Kong unless otherwise indicated.

Name of entity	Attributable equity interests held by the Group 2017	2016	Principal activities
Direct Profit Development Limited	**8%**	8%	Property development
Dramstar Company Limited	**12%**	12%	Property development
Victory World Limited	**10%**	10%	Property development

(b) *At 31 December 2017 and 2016, these equity investments were stated at their costs because there was no active market quotation and the fair value could not be reliably measured. Available-for-sale equity investments were individually determined to be impaired on the basis of a material decline in their fair values below costs and adverse changes in the market in which these investees operated and indicated that the costs of the Group's investments in them may not be recovered.*

22. AMOUNTS DUE FROM ASSOCIATES AND JOINT VENTURES UNDER NON-CURRENT ASSETS

	2017			2016		
	Interest-free	**Interest bearing**	**Total**	Interest-free	Interest bearing	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from:						
associates	**4,489,974**	**4,479,818**	**8,969,792**	2,728,181	–	2,728,181
joint ventures	**3,410,484**	**3,182,190**	**6,592,674**	1,293,878	764,139	2,058,017
	7,900,458	**7,662,008**	**15,562,466**	4,022,059	764,139	4,786,198

At 31 December 2017, the interest bearing amounts due from associates and joint ventures bear variable interest rates ranging from 4.75% to 12.0% (2016: 6.84% to 6.92%) per annum.

All the non-current amounts due from associates and joint ventures are unsecured and not expected to be recovered within one year after the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

23. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials and consumables, at cost	**82,852**	88,711

24. STOCK OF PROPERTIES

	2017 **HK$'000**	2016 HK$'000
Completed properties	**36,582,703**	51,829,525
Properties under development *(Note)*	**298,958,860**	209,860,252
Total stock of properties	**335,541,563**	261,689,777

Note: Included in the amount are properties under development for sale of HK$243,375,920,000 (2016: HK$136,398,682,000) not expected to be realised within twelve months from the end of the reporting period.

At 31 December 2017, stock of properties with carrying amount of HK$403,270,000 (2016: HK$1,461,995,000) were stated at their net realisable values.

At 31 December 2017, stock of properties included costs incurred for a project in Beijing of HK$13,283,086,000, whereby the Group entered into agreements with the Beijing local government for land development works such as relocation of residents and infrastructure constructions, and subsequent development of residential properties for sale.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

25. LAND DEVELOPMENT EXPENDITURE

	2017 HK$'000	2016 HK$'000
Cost incurred	**24,305,938**	7,631,262

The Group, together with independent third parties, entered into agreements ("Agreements") with the Beijing local government to jointly redevelop some lands in Beijing. The Group is responsible for the land development works, which included but is not limited to the removal of the existing buildings situated on the land, the relocation of the existing residents, the provision of infrastructure systems including roads, drainage system, water, gas and electricity supply and the construction of public facilities. Pursuant to the Agreements, the Group will be reimbursed for the actual costs incurred in carrying out the land development and be entitled to the fixed returns irrespective of whether the Group will obtain the land use rights of the land in the future.

26. TRADE AND OTHER RECEIVABLES

Proceeds receivable in respect of properties development are settled in accordance with the terms stipulated in the sale and purchase agreements.

Except for the proceeds from properties development and rental income from lease of properties which are receivable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of not exceeding 60 days to its customers.

The following is an ageing analysis of trade receivables presented at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Trade receivables, aged		
0–30 days	**6,315,313**	6,789,334
31–90 days	**653,876**	297,355
Over 90 days	**1,857,092**	695,944
	8,826,281	7,782,633
Other receivables	**5,474,286**	3,558,798
	14,300,567	11,341,431

Before accepting any new customer, the Group uses an internal credit assessment system to assess the potential customers' credit quality and defines credit limits by customer.

The Group has insignificant trade receivable balances which are past due at the end of reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26. TRADE AND OTHER RECEIVABLES *(continued)*

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no provision required at the end of the reporting period.

27. AMOUNTS DUE FROM FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES/ NON-CONTROLLING SHAREHOLDERS UNDER CURRENT ASSETS

At 31 December 2017, the amounts due from associates include amounts due from COGO of HK$5,078,860,000 (2016:HK$10,913,818,000), which were mainly arisen from the disposal of subsidiaries to COGO by the Group in 2016 (Note 38). The amounts include HK$3,343,788,000 (2016: HK$6,005,268,000) which bears variable interest at the People's Bank of China prevailing lending rate per annum, HK$1,532,425,000 (2016: HK$2,581,711,000) which bears variable interest at Hong Kong Interbank Offered Rate ("HIBOR") per annum, and the remaining balances are interest-free. All these balances are unsecured and recoverable within one year or on demand.

The remaining balances of amounts due from associates and all the amounts due from fellow subsidiaries/joint ventures/ non-controlling shareholders at 31 December 2017 and 2016 are unsecured, interest-free and recoverable on demand.

28. AMOUNTS DUE FROM/TO CITIC GROUP

At 31 December 2017, the amounts due from CITIC Group are unsecured, interest-free and recoverable on demand.

At 31 December 2016, except for the amounts of HK$470,480,000 which bore fixed interest rates ranging from 1.49% to 4.0% per annum, all the amounts due from CITIC Group were unsecured, interest-free and recoverable on demand.

At 31 December 2016, the amounts due to CITIC Group were unsecured, interest-free and repayable on demand.

During the year ended 31 December 2016, certain amounts due from and to CITIC Group were offset pursuant to the sale and purchase agreement of the CITIC Assets Acquisition.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

29. BANK BALANCES AND CASH

Included in bank balances and cash are restricted bank deposits of HK$4,590,558,000 (2016: HK$2,178,346,000) which can only be applied in the designated property development projects.

All bank deposits of the Group carry interest at market rates ranging from 0.01% to 3.38% (2016: 0.01% to 4.50%) per annum.

At the end of the reporting period, the Group had the following bank balances and cash denominated in foreign currencies:

	2017	2016
	HK$'000	*HK$'000*
Bank balances and cash denominated in:		
HK$	**26,647,064**	11,955,027
US$	**3,201,975**	11,793,849

The reconciliation of liabilities arising from financing activities is as follow:

	Bank and other borrowings	Notes payable	Interest payable	Amounts due to fellow subsidiaries	Amounts due to associates	Amounts due to joint ventures	Amounts due to non-controlling shareholders	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	96,245,128	77,575,412	751,934	678,296	1,400,177	2,158,084	3,839,122	182,648,153
Cash flows								
– inflow from financing activities	50,199,681	–	–	108,225	529,758	3,179,097	3,485,529	57,502,290
– outflow from financing activities	(48,897,982)	(5,815,625)	(7,592,840)	(29,527)	(25,581)	(75,355)	(570,885)	(63,007,795)
Exchange realignment	4,871,102	2,828,221	93,337	–	147,297	163,805	456,118	8,559,880
Other non-cash movements	1,162,762	69,738	7,429,071	–	(22,796)	–	1,643,091	10,281,866
At 31 December 2017	103,580,691	74,657,746	681,502	756,994	2,028,855	5,425,631	8,852,975	195,984,394

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

30. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables presented based on invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
Trade payables, aged		
0–30 days	**12,550,567**	9,481,660
31–90 days	**1,392,923**	697,096
Over 90 days	**20,223,088**	18,219,961
	34,166,578	28,398,717
Other payables	**6,537,816**	4,900,652
Retentions payable	**11,121,905**	11,515,832
	51,826,299	44,815,201

Other payables mainly include other taxes payable and accrued charges.

Of the other payables and retentions payable, an amount of HK$4,632,851,000 (2016: HK$3,316,113,000) is due beyond twelve months from the end of the reporting period.

31. AMOUNTS DUE TO FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES

At 31 December 2017 and 2016, the amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand.

At 31 December 2017, except for the unsecured amounts due to associates and a joint venture of HK$1,216,867,000 (2016: HK$627,100,000) and HK$307,229,000 (2016: HK$Nil), respectively, which bear fixed interest rates ranging from 0.35% to 3.70% (2016: 0.35%) per annum and repayable within one year, all the amounts due to associates and joint ventures are unsecured, interest-free and repayable on demand.

32. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

At 31 December 2017, the current amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand except for the amounts of HK$2,067,143,000 (2016: HK$1,805,465,000) and HK$61,504,000 (2016: HK$Nil) which bear fixed and variable interest rates, respectively, ranging from 4.75% to 6.18% (2016: 5.7% to 14.4%) per annum.

At 31 December 2017, the non-current amounts due to non-controlling shareholders are unsecured, interest-free and not repayable within one year from the end of the reporting period except for the amounts of HK$1,653,012,000 (2016: HK$278,077,000) and HK$2,050,749,000 (2016: HK$502,598,000) which bear fixed and variable interest rates, respectively, ranging from 5.23% to 8.0% (2016: 6.0% to 6.15%) per annum.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

33. SHARE CAPITAL

	2017		2016	
	Number of shares	**Value**	Number of shares	Value
	'000	***HK$'000***	*'000*	*HK$'000*
Issued and fully paid				
At beginning of the year	**10,956,201**	**90,420,438**	9,860,581	62,434,116
Issue of shares	**–**	**–**	1,095,620	27,986,322
At end of the year	**10,956,201**	**90,420,438**	10,956,201	90,420,438

In connection with the CITIC Assets Acquisition (Note 3(a)), the Company has allotted and issued 1,095,620,154 ordinary shares of the Company to CITIC Limited at HK$25.55 per share on 15 September 2016 for a net value of HK$27,986,322,000 (net of share issuance costs).

Share-based Payments

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan") of China State Construction Engineering Corporation Limited ("CSCECL"), an intermediate holding company of the Company, 10,200,000 incentive shares were granted to certain employees of the Company (the "Employees", including one director and certain members of senior management) on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share, subject to a lock-up period of two-year service from the Grant Date (the "Lock-up Period"). During the Lock-up Period, the incentive shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the incentive shares are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date. Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over the incentive shares will be removed, otherwise, CSCECL has constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or individual's key performance indicators are not achieved.

The fair value of the incentive shares on the Grant Date determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs adopted in the model include:

Closing price on the Grant Date	RMB9.16 per share
Exercise price	RMB4.866 per share
Cap of the share-based payments	40% of respective Employees' remuneration
Average volatility	44%
Average dividend yield	3.32%
Average annual risk-free interest rate	2.84%

The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

34. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank and other borrowings		
– secured	**963,072**	1,296,492
– unsecured	**102,617,619**	94,948,636
	103,580,691	96,245,128

	2017 HK$'000	2016 HK$'000
The bank and other borrowings are repayable as follows:		
Within one year	**13,324,575**	34,471,679
More than one year, but not exceeding two years	**10,464,457**	17,100,765
More than two years, but not exceeding five years	**77,029,249**	41,973,916
After five years	**2,762,410**	2,698,768
Total bank and other borrowings	**103,580,691**	96,245,128
Less: Amounts classified as current liabilities	**(13,324,575)**	(34,471,679)
Amounts classified as non-current liabilities	**90,256,116**	61,773,449

Borrowings of the Group with carrying amount of HK$66,505,362,000 (2016: HK$66,939,546,000) bear interest at rates ranging from 4.28% to 7.50% (2016: 3.91% to 8.30%) per annum and are denominated in RMB. Borrowings of the Group amounting to HK$2,009,229,000 (2016: HK$1,825,960,000), which are denominated in GBP, are based on London Interbank Offered Rate plus a specified margin per annum. The remaining borrowings of the Group amounting to HK$35,066,100,000 (2016: HK$27,479,622,000), which are denominated in HK$, are based on HIBOR plus a specified margin per annum.

The Group's weighted average borrowing cost excluding the effect of capitalisation of exchange losses of HK$324,244,000 (2016: HK$1,303,000,000) is 4.27% (2016: 4.76%) per annum. The borrowings amounting to HK$17,284,337,000 (2016: HK$38,008,620,000) and HK$86,296,354,000 (2016: HK$58,236,508,000) are carried at fixed interest rates and variable interest rates respectively.

At 31 December 2016, borrowings of the Group with carrying amount of HK$1,169,996,000 were loans due to CITIC Group which were fully repaid during the year.

Secured bank and other borrowings of the Group are pledged by certain assets as set out in Note 43.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

35. NOTES PAYABLE

At 31 December 2017 and 2016, the Group issued below notes with similar terms and conditions and different features as follows:

Issue date	Principal amount *(in million)*	Issue price	Fixed interest rate per annum	Maturity date	Fair value at 31 December 2017 *HK$'000*	Carrying amount at 31 December 2017 *HK$'000*	Carrying amount at 31 December 2016 *HK$'000*
10 November 2010	US$1,000 [i] (approximately HK$7,750)	100%	5.50% [iv]	10 November 2020	**8,354,128**	**7,726,588**	7,719,219
15 February 2012	US$750 [i] (approximately HK$5,816)	99.816%	4.875% [iv]	15 February 2017	**–**	**–**	5,814,611
15 November 2012	US$700 [i] (approximately HK$5,425)	99.665%	3.95% [iv]	15 November 2022	**5,648,486**	**5,391,484**	5,385,390
15 November 2012	US$300 [i] (approximately HK$2,325)	99.792%	5.35% [iv]	15 November 2042	**2,738,355**	**2,303,148**	2,302,735
29 October 2013	US$500 [i] (approximately HK$3,877)	99.613%	3.375% [iv]	29 October 2018	**3,934,978**	**3,870,708**	3,863,708
29 October 2013	US$500 [i] (approximately HK$3,877)	99.595%	5.375% [iv]	29 October 2023	**4,309,807**	**3,854,459**	3,851,304
29 October 2013	US$500 [i] (approximately HK$3,877)	99.510%	6.375% [iv]	29 October 2043	**5,162,326**	**3,841,059**	3,840,523
8 May 2014	US$550 [i] (approximately HK$4,263)	99.786%	4.25% [iv]	8 May 2019	**4,379,612**	**4,254,386**	4,247,997
8 May 2014	US$450 [i] (approximately HK$3,488)	99.554%	5.95% [iv]	8 May 2024	**4,012,851**	**3,464,760**	3,461,796
8 May 2014	US$250 [i] (approximately HK$1,938)	101.132%	4.25% [iv]	8 May 2019	**1,990,733**	**1,941,430**	1,943,865
8 May 2014	US$250 [i] (approximately HK$1,938)	103.080%	5.95% [iv]	8 May 2024	**2,229,361**	**1,972,546**	1,976,973
11 June 2014	US$500 [i] (approximately HK$3,876)	99.445%	6.45% [iv]	11 June 2034	**4,977,389**	**3,838,472**	3,837,221
15 July 2015	EUR600 [i] (approximately HK$5,086)	99.587%	1.75% [iv]	15 July 2019	**5,755,828**	**5,604,209**	4,861,783
6 November 2015	EUR400 [i] (approximately HK$3,375)	99.541%	1.70% [v]	6 November 2019	**3,846,783**	**3,733,553**	3,239,128
19 November 2015	RMB7,000 [ii] (approximately HK$8,393)	100%	3.40% [v]	19 November 2021	**8,307,229**	**8,433,735**	7,838,746
19 November 2015	RMB1,000 [iii] (approximately HK$1,199)	100%	3.85% [v]	19 November 2022	**1,179,518**	**1,204,819**	1,119,821
9 December 2015	RMB4,000 [ii] (approximately HK$4,749)	100%	4.80% [v]	9 December 2020	**4,819,277**	**4,794,779**	4,441,334
15 January 2016	RMB1,000 [ii] (approximately HK$1,110)	100%	4.40% [v]	15 January 2021	**1,204,819**	**1,198,695**	1,110,333
23 August 2016	RMB6,000 [iii] (approximately HK$6,719)	100%	3.10% [v]	23 August 2026	**7,228,916**	**7,228,916**	6,718,925
						74,657,746	77,575,412
				Less: Amounts classified as current liabilities		**(17,099,222)**	(5,814,611)
				Amounts classified as non-current liabilities		**57,558,524**	71,760,801

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

35. NOTES PAYABLE *(continued)*

Notes:

(i) *The notes payable are unconditionally and irrevocably guaranteed by the Company. They shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the trust deed which include, inter alia, the negative pledge given by the Company and the related subsidiaries. The fair values of the notes payable at 31 December 2017 were determined based on the closing market prices of the notes payable at that date and are within Level 1 of the fair value hierarchy.*

(ii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the third year from issue date. The fair values of the notes payable at 31 December 2017 were determined based on the closing market prices of the notes payable and are within Level 1 of the fair value hierarchy.*

(iii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the fifth year from issue date. The fair values of the notes payable at 31 December 2017 were determined based on the closing market prices of the notes payable and are within Level 1 of the fair value hierarchy.*

(iv) *Payable semi-annually*

(v) *Payable annually*

36. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

Deferred tax liabilities/(assets)

	Accelerated tax depreciation	Revaluation of properties	Fair value adjustment on properties	Undistributed earnings of PRC subsidiaries and joint ventures	Other taxable temporary differences	Unrealised profit	Tax loss	Provision for LAT	Other deductible temporary differences	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	49,333	7,161,271	669,774	392,126	109,615	(203,948)	(205,293)	(2,543,404)	(241,343)	5,188,131
Charged/(credited) to profit or loss	–	1,848,985	(35,254)	–	98,113	7,357	79,127	(430,260)	19,234	1,587,302
Disposal of investment properties	–	(159,416)	–	–	–	–	–	–	–	(159,416)
Acquisition/disposal of subsidiaries	–	(198,670)	152,927	–	–	–	55,721	11,539	7,154	28,671
Exchange realignment	–	(582,377)	(79,771)	(778)	(18,637)	25,296	9,064	45,974	45,884	(555,345)
At 31 December 2016	49,333	8,069,793	707,676	391,348	189,091	(171,295)	(61,381)	(2,916,151)	(169,071)	6,089,343
Charged/(credited) to profit or loss	**–**	**1,388,237**	**(243,586)**	**16,311**	**193,341**	**13,409**	**(60,481)**	**(947,718)**	**(1,544)**	**357,969**
Disposal of investment properties	**–**	**(22,434)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,434)**
Acquisition/disposal of subsidiaries	**–**	**–**	**1,638,428**	**–**	**–**	**–**	**26,190**	**–**	**–**	**1,664,618**
Exchange realignment	**–**	**654,009**	**122,056**	**30,294**	**23,119**	**(12,517)**	**(3,220)**	**(90,708)**	**(10,665)**	**712,368**
At 31 December 2017	**49,333**	**10,089,605**	**2,224,574**	**437,953**	**405,551**	**(170,403)**	**(98,892)**	**(3,954,577)**	**(181,280)**	**8,801,864**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

36. DEFERRED TAX *(continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2017 HK$'000	2016 HK$'000
Net deferred tax assets	(4,902,484)	(3,767,912)
Net deferred tax liabilities	13,704,348	9,857,255
	8,801,864	6,089,343

Under the CIT Law of PRC, withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$5,909,801,000 (2016: HK$4,839,364,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group had unused tax losses of HK$12,757,231,000 (2016: HK$12,993,004,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the tax losses are losses of HK$6,808,726,000 (2016: HK$6,360,751,000) that will expire within five years from the end of the reporting period. Other tax losses may be carried forward indefinitely.

37. GOODWILL

	2017 HK$'000	2016 HK$'000
Carrying amounts	64,525	64,525

The amount represented goodwill arising from acquisition of the entire equity interest in Hua Yi Designing Consultants Limited ("Hua Yi"). Hua Yi and its subsidiary are principally engaged in the provision of building design consultancy services and investment holding. For the purpose of impairment testing, the attributable amount of goodwill, having indefinite useful lives, has been allocated to the other operations category in the reporting segment.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

38. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

On 20 October 2017, the Group entered into a sale and purchase agreement with 中海物業管理有限公司, a wholly-owned subsidiary of China Overseas Property Holdings Limited ("COPL"), which is a fellow subsidiary of the Company, to dispose of the entire equity interests of 中信物業服務有限公司 ("中信物業") for a cash consideration of RMB190,000,000 (equivalent to HK$220,930,000). 中信物業 and its subsidiaries are principally engaged in property management businesses in mainland China. The disposal was completed on 21 December 2017.

In addition to the above disposal, the Group has also completed a disposal of a subsidiary during the year.

The total net assets of the disposed subsidiaries at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	10,296
Deferred tax assets	26,190
Trade and other receivables	86,593
Bank balances and cash	354,670
Amounts due from related companies	183,721
Other assets	12,122
Trade and other payables	(337,007)
Receipts in advance and other deposits	(120,032)
Tax liabilities	(46,311)
Amounts due to related companies	(97,176)
Net assets	73,066
Non-controlling interests	(2,069)
	70,997
Gain on disposal of subsidiaries	165,865
Considerations	236,862

Analysis of net outflow of cash and cash equivalents in respect of disposal of subsidiaries:

	HK$'000
Cash considerations received during the year	192,678
Less: Cash and cash equivalents disposed	(354,670)
	(161,992)

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

38. DISPOSAL OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2016

In addition to the sale of a portfolio of properties to the CITIC Sellers as disclosed in Note 3(a) to the financial statements, the Group has also completed the following disposals to various related parties of the Group:

- On 11 May 2016, the Group entered into a sale and purchase agreement with Viewtime Limited, a wholly-owned subsidiary of COHL, which is the immediate holding company of the Company, to dispose of the entire issued share capital and shareholder's loan of Treasure Trinity Limited, which indirectly held the Hoover Towers (Tower V) in Hong Kong. The total consideration was HK$507,367,000. The disposal was completed on 18 May 2016.

- On 11 May 2016, the Group entered into a sale and purchase agreement with Total Joy Global Limited, a wholly-owned subsidiary of China State Construction International Holdings Limited, which is a listed fellow subsidiary of the Company, to dispose of the entire issued share capital and shareholder's loan of Precious Deluxe Global Limited, which indirectly held the China Overseas Building in Hong Kong. The total consideration was HK$4,825,147,000. The disposal was completed on 24 June 2016.

- On 12 October 2016, the Group entered into a sale and purchase agreement with COGO, a listed associate of the Company, to dispose of the entire issued share capital of Best Beauty Investments Limited ("Best Beauty"). Best Beauty and its subsidiaries (together the "COGO Disposal Group") have an interest in a property portfolio mainly comprises residential property development projects located in third-tier cities in the PRC. The total consideration was RMB3,518,557,000 (equivalent to HK$4,163,973,000). COGO has also undertaken to procure the COGO Disposal Group to repay loans due to the Group of HK$8,651,425,000 at 31 December 2016 within one year after the completion of the disposal (Note 27). The disposal was completed on 29 December 2016.

The total net assets of the disposed subsidiaries at the date of disposal were as follows:

	HK$'000
Investment properties	3,731,225
Property, plant and equipment	1,518,942
Stock of properties	16,537,838
Trade and other receivables	727,876
Bank balances and cash	2,277,189
Other assets	1,330,593
Trade and other payables	(12,084,705)
Pre-sales, rental and other deposits	(3,102,298)
Deferred tax liabilities	(199,291)
Bank and other borrowings	(4,879,652)
Other liabilities	(1,777,982)
Net assets	4,079,735
Non-controlling interests	(106,738)
	3,972,997
Gain on disposal of subsidiaries	10,175,939
Considerations	14,148,936

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

38. DISPOSAL OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2016 *(continued)*

Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiaries:

	HK$'000
Cash considerations received during the year	7,406,768
Less: Cash and cash equivalents disposed	(2,277,189)
	5,129,579

39. ACQUISITION OF SUBSIDIARIES

(a) For the year ended 31 December 2017

On 17 June 2017, Beauty Select Limited ("Beauty Select"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with GCPF Shanghai 65 Corp. ("GCPF"), pursuant to which Beauty Select agreed to purchase and GCPF agreed to sell the 50% of the issued shares of Big Profit Enterprises Limited ("Big Profit") at a total cash consideration of USD232,545,000 (equivalent to HK$1,813,903,000). Related shareholder's loan of USD160,840,000 (equivalent to HK$1,252,185,000) was also acquired as part of the acquisition. Big Profit is an investment holding company and holds 100% equity interest in 上海中海海軒房地產有限公司 (Shanghai COB Haixuan Real Estate Co., Limited) ("Shanghai COB Haixuan"), which is engaged in property investment business in Shanghai, the PRC. The acquisition was completed on 27 June 2017 and Big Profit became a wholly-owned subsidiary of the Company.

Before the acquisition, the Group held 50% equity interest in Big Profit which was accounted for as a joint venture of the Group. The Group remeasured its equity interest in Big Profit immediately prior to the acquisition date, resulting in a gain arising from fair value remeasurement of HK$2,140,171,000. In addition, a gain on acquisition of subsidiaries of HK$326,267,000, being the difference between the fair value of total identifiable net assets acquired and the aggregate consideration transferred and fair value of previously held equity interest, was recognised.

The acquisition-related costs have been expensed off and are included in the administrative expenses in the profit or loss.

The following table summarised the consideration for the acquisition as mentioned above, and the fair value of assets acquired and liabilities assumed at the acquisition date.

	HK$'000
Aggregate consideration transferred and fair value of previously held equity interest:	
Total consideration	1,813,903
Fair value of the previously held equity interest in Big Profit immediately prior to acquisition	2,140,171
	3,954,074

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

39. ACQUISITION OF SUBSIDIARIES *(continued)*

(a) For the year ended 31 December 2017 *(continued)*

	Fair value on acquisition HK$'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Investment properties	9,780,396
Property, plant and equipment	286
Other receivables, deposits and prepayments	21,817
Bank balances and cash	58,129
Trade and other payables	(371,664)
Bank borrowings	(1,065,825)
Deferred tax liabilities	(1,638,428)
Loans due to GCPF	(1,252,185)
Loans due to the Group	(1,252,185)
Total identifiable net assets acquired	4,280,341
Gain on acquisition of subsidiaries	(326,267)
	3,954,074
Net cash outflow arising from acquisition:	
Cash consideration paid	(1,813,903)
Acquisition of loans owed by Big Profit to GCPF	(1,252,185)
Cash and cash equivalents acquired	58,129
	(3,007,959)

Big Profit and Shanghai COB Haixuan had contributed to the Group's revenue and profit amounting to HK$10,748,000 and a loss of HK$36,936,000 for the year ended 31 December 2017 respectively since the date of acquisition.

Had the acquisition of Big Profit been completed on 1 January 2017, the Group's revenue and profit for the year ended 31 December 2017 would have been HK$166,044,963,000 and HK$42,141,989,000 respectively.

(b) For the year ended 31 December 2016

On 21 April 2016, as part of the reorganisation of the CITIC Acquired Group prior to the completion of the CITIC Assets Acquisition, the CITIC Acquired Group acquired the remaining 80% equity interest in Huijin Real Estate Fund No. 1 ("Huijin No.1") at a cash consideration of RMB15,098,000 (equivalent to HK$17,867,000). Huijin No.1 held 100% equity interest in Tianjin CITIC Tianjiahu Investment Co., Ltd. ("Tianjiahu"), which is engaged in property development business in Tianjin, PRC. Upon the completion of the acquisition, Huijin No.1 was dissolved and Tianjiahu became a wholly-owned subsidiary of the CITIC Acquired Group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

39. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) For the year ended 31 December 2016 *(continued)*

On 26 April 2016, as part of the reorganisation of the CITIC Acquired Group prior to the completion of the CITIC Assets Acquisition, the CITIC Acquired Group acquired the remaining 60% equity interest in Huijin Read Estate Fund No. 3 ("Huijin No.3") at a cash consideration of RMB314,479,000 (equivalent to HK$372,165,000). Huijin No.3 held 100% equity interest in Qingdao Lianheng Real Estate Co., Ltd., Qingdao Lianming Real Estate Co., Ltd. and Qingdao Shaohai Real Estate Co., Ltd. (collectively referred to as "Qingdao Forest Lake Project Companies"), which are engaged in property development business in Qingdao, PRC. Upon the completion of the acquisition, Huijin No.3 was dissolved and Qingdao Forest Lake Project Companies became wholly-owned subsidiaries of the CITIC Acquired Group.

As a result of the above acquisitions, goodwill of HK$1,903,104,000, being the difference between the consideration and the fair values of identifiable net liabilities assumed, was arisen. However, management of the CITIC Acquired Group considered that such goodwill is not expected to generate any economic benefit or cash inflow in the future. As such, impairment losses on the entire goodwill were recognised in the consolidated financial statements immediately upon the completion of the above acquisitions.

The following table summarised the consideration for the acquisitions as mentioned above, the fair value of assets acquired and liabilities assumed at the acquisition date.

	Fair value on acquisition HK$'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	7,729
Stock of properties	11,173,066
Trade and other receivables, and prepayments	501,002
Other assets	129,498
Bank balances and cash	315,620
Trade and other payables	(3,848,352)
Pre-sales, rental and other deposits	(778,720)
Bank and other borrowings	(8,850,872)
Deferred tax liabilities	(152,927)
Other liabilities	(9,116)
Total identifiable net liabilities assumed	(1,513,072)
Impairment losses in respect of goodwill	1,903,104
Cash consideration paid	390,032
Net cash outflow arising from acquisition:	
Cash consideration paid	(390,032)
Cash and cash equivalents acquired	315,620
	(74,412)

Tianjiahu and Qingdao Forest Lake Project Companies had contributed to the Group's revenue and profit amounting to HK$1,970,619,000 and HK$135,049,000 respectively for the year ended 31 December 2016 since the date of acquisition.

Had the acquisition of Tianjiahu and Qingdao Forest Lake Project Companies been completed on 1 January 2016, the Group's revenue and profit for the year ended 31 December 2016 would have been HK$164,366,236,000 and HK$37,000,591,000 respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

40. OPERATING LEASE COMMITMENTS

The Group as Lessor

At the end of the reporting period, completed investment properties and other properties with carrying amounts of HK$83,171,366,000 (2016: HK$54,910,652,000) and HK$163,802,000 (2016: HK$749,536,000) respectively, were let out under operating leases.

Property rental income earned during the year is HK$2,450,060,000 (2016: HK$2,137,167,000), of which HK$1,629,212,000 (2016: HK$1,618,129,000) was derived from the letting of investment properties. All of the properties leased out have committed tenants for one to eighteen years without termination options granted to tenants.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**1,767,453**	1,749,113
In the second to fifth year inclusive	**3,391,968**	2,943,146
After five years	**1,243,992**	1,304,702
	6,403,413	5,996,961

The Group as Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**59,206**	49,487
In the second to fifth year inclusive	**74,083**	63,323
	133,289	112,810

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for two to six years (2016: two to six years).

41. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments not provided for in the consolidated financial statements:

	2017	2016
	HK$'000	*HK$'000*
Capital expenditure in respect of investment properties:		
Contracted but not provided for	**1,041,127**	1,765,653

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

42. CONTINGENT LIABILITIES

At the end of the reporting period, the financial guarantees were as follows:

(a) Guarantees given by the Group to banks in respect of credit facilities granted to:

	2017	2016
	HK$'000	*HK$'000*
Associates		
– Maximum	**1,474,104**	2,082,867
– Utilised	**1,474,104**	2,033,595
Joint ventures		
– Maximum	**1,241,988**	709,574
– Utilised	**1,241,988**	709,574

(b) At 31 December 2017, the Group had counter indemnities amounted to HK$20,191,000 (2016: HK$2,666,381,000) for guarantees issued in respect of certain construction contracts undertaken by the Group.

(c) At 31 December 2017, the Group provided guarantees amounted to HK$51,140,067,000 (2016: HK$42,452,979,000) for the repayment of the mortgage bank loans granted to purchasers of the Group's properties.

The directors of the Company considered that the fair values of financial guarantee contracts at their initial recognition and at the end of the reporting period are insignificant on the basis of short maturity periods and low applicable default rates.

43. PLEDGE OF ASSETS

At the ended of the reporting period, certain assets of the Company's subsidiaries have been pledged to secure the bank and other borrowings of the Company's subsidiaries. The carrying values of the pledged assets at 31 December 2017 and 2016 were as follows:

	2017	2016
	HK$'000	*HK$'000*
Stock of properties	–	340,145
Investment properties	**1,937,760**	3,905,128
	1,937,760	4,245,273

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS

(a) In addition to those disclosed in other sections of the financial statements, the following material related party transactions have been entered into by the Group during the year:

Nature of transaction	NOTES	2017 HK$'000	2016 HK$'000
Fellow subsidiaries			
Property development project construction fee	(a)	**4,521,464**	2,687,064
Rental income	(b)	**2,486**	11,695
Rental expenses	(b)	**–**	3,665
Insurance fee	(c)	**125**	241
Heating pipes connection service fee	(a)	**41,259**	33,175
Building design consultancy income	(c)	**1,939**	–
Property management fee	(f)	**253,109**	269,275
Engineering service fee	(f)	**9,510**	14,885
Associates			
Royalty income	(e)	**203,537**	172,863
Rental expenses	(b)	**15,301**	16,047
Interest income	(d)	**294,682**	69,458
Joint ventures			
Interest income	(d)	**86,524**	237,678

Notes:

(a) *Property development project construction fee and heating pipes connection service fee are charged in accordance with respective contracts. The amounts represent aggregate transaction amounts during the year in relation to contracts signed in current and prior years.*

(b) *Rental income and rental expenses are charged in accordance with respective tenancy agreements.*

(c) *Insurance fee and building design consultancy income are charged in accordance with respective contracts.*

(d) *Interest income is charged at interest rates as specified in Notes 22 on the outstanding amounts.*

(e) *Royalty income is charged at annual fee as specified in the contracts.*

(f) *Property management fee and engineering service fee are charged at rates in accordance with respective contracts.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS *(continued)*

(b) The remuneration of the Company's directors and other members of key management of the Group during the year were as follows:

	2017 HK$'000	2016 HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**37,650**	34,334
Bonus	**95,140**	103,869
Mandatory Provident Fund contribution	**290**	309
	133,080	138,512

The emoluments of other members of key management of the Group were within the following bands:

	2017	2016
HK$1,000,001 to HK$2,500,000	**2**	1
HK$2,500,001 to HK$5,000,000	**3**	2
HK$5,000,001 to HK$7,500,000	**5**	7
HK$7,500,001 to HK$10,000,000	**7**	6
	17	16

The remuneration of directors and key executives are determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with Other State-Controlled Entities in the PRC

The Group operates in an economic environment predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCEC which is controlled by the PRC government. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities ("State-controlled Entities"). The directors of the Company consider those State-controlled Entities are independent third parties so far as the Group's businesses with them are concerned.

In connection with their property development activities, the Group awarded certain construction and other works contracts to entities, which to the best knowledge of management, are State-controlled Entities.

The Group has also entered into various transactions with PRC government departments or agencies which include the acquisition of land mainly through tendering to those government departments or agencies.

Other than those disclosed in section (a) above and the acquisition of land from the government departments or agencies, the directors of the Company consider that the other transactions with those State-controlled Entities are not material to the Group.

In addition, in the normal course of business, the Group has maintained various trade balances with contractors and have entered into various deposits and lending transactions with banks and financial institutions which are State-controlled Entities. In view of the nature of those transactions, the directors of the Company are of the opinion that quantitative information on the extent of transactions between the Group and the government related entities would not be meaningful.

The Group is active in sales and lease of properties, the provision of real estate agency and management services and other services in various provinces in the PRC. The directors of the Company are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with State-controlled Entities. However, the directors of the Company are of the opinion that other than those disclosed in section (a) above, the transactions with State-controlled Entities are not material to the Group's operations.

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in the consolidated statement of financial position and Notes 22, 27, 28, 31 and 32.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		2017 HK$'000	2016 HK$'000
Non-current Assets			
Property, plant and equipment		**953**	2,859
Investments in subsidiaries		**1,389,998**	1,689,525
Amounts due from subsidiaries		**6,921,452**	15,282,796
		8,312,403	16,975,180
Current Assets			
Stock of properties		**1,139**	1,163
Other receivables		**15,378**	48,122
Deposits and prepayments		**27,955**	38,997
Amounts due from subsidiaries		**155,946,947**	132,858,711
Tax prepaid		**118**	118
Bank balances and cash		**8,627,574**	17,890,558
		164,619,111	150,837,669
Current Liabilities			
Other payables		**51,110**	49,019
Other deposits		**163**	167
Amounts due to subsidiaries		**26,193,168**	44,988,700
Bank borrowings – due within one year		**4,738,295**	4,738,295
Other financial liabilities		**190,755**	380,639
		31,173,491	50,156,820
Net Current Assets		**133,445,620**	100,680,849
Total Assets Less Current Liabilities		**141,758,023**	117,656,029
Capital and Reserves			
Share capital		**90,420,438**	90,420,438
Reserves	*Note (a)*	**20,586,739**	(344,220)
Total Equity		**111,007,177**	90,076,218
Non-current Liabilities			
Bank borrowings – due after one year		**30,327,805**	27,043,678
Other financial liabilities		**423,041**	536,133
		30,750,846	27,579,811
		141,758,023	117,656,029

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2018 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note (a): Reserves of the Company

	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2016	(1,104,204)	5,937,746	4,833,542
Profit and total comprehensive income for the year	(7,401,386)	10,101,133	2,699,747
2015 final dividend paid	–	(4,042,838)	(4,042,838)
2016 interim dividend paid	–	(3,834,671)	(3,834,671)
At 31 December 2016	(8,505,590)	8,161,370	(344,220)
Profit and total comprehensive income for the year	8,794,520	20,572,715	29,367,235
2016 final dividend paid	–	(4,601,605)	(4,601,605)
2017 interim dividend paid	–	(3,834,671)	(3,834,671)
At 31 December 2017	**288,930**	**20,297,809**	**20,586,739**

The Company's reserves available for distribution to shareholders at 31 December 2017 represents the retained profits of HK$20,297,809,000 (2016: HK$8,161,370,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is the particulars of the principal subsidiaries at 31 December 2017 which, in the opinion of the directors of the Company, principally affect the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Ace Dragon Development Limited	1 ordinary share HK$1	–	100	Property development
Carmelite Riverside London S.a.r.l (vii)	15,000 shares of GBP1 each	–	100	Property investment
China Overseas Finance (Cayman) II Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) III Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) IV Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) V Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) VI Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International (Cayman) Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International II (Cayman) Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Property Limited	100 ordinary shares HK$1,000	100	–	Investment holding, property consultancy and real estate agency
China Overseas (Zhong Guo) Limited	5,000,000 ordinary shares HK$50,000,000	–	100	Investment holding
Chung Hoi Finance Limited	500,000 ordinary shares HK$5,000,000	100	–	Loan financing, investment holding and security investments

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Gain Regent Company Limited	2 ordinary shares HK$2	–	100	Property development
Goldwell Development Limited	100 ordinary shares HK$100	–	100	Property development and investment
Great Fortune Property Limited (viii)	48,100,000 shares of GBP1 each	–	100	Property investment
Great Sky Property Investment Company Limited (vii)	MOP25,000	–	100	Property development
Longcross Limited	30,370,000 ordinary shares HK$30,370,000 404,552,883 non-voting deferred shares HK$404,552,883	–	100	Property investment
Macyat Limited	10,000 ordinary shares HK$10,000	–	100	Property development
Maxdo Investments Limited	10,000,000 ordinary shares HK$10,000,000	–	100	Investment holding
Maxjet Company Limited	10 ordinary shares HK$10	–	100	Property development
Omar Property Development Company Limited (vi)	MOP26,000	–	85	Property development
One Finsbury Circus London PropCo S.a.r.l (vi)	12,024 shares of GBP1 each	–	100	Property investment
Wealth Join Development Limited	1 ordinary share HK$1	–	100	Property development
中海發展(上海)有限公司 (ii)	US$17,000,000	–	100	Property development
上海新海匯房產有限公司 (iii)	RMB40,000,000	–	99.5	Property development
上海中海海怡房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
上海海創房地產有限公司 (iv)	RMB10,000,000	–	100	Property development
上海中建投資有限公司 (iv)	RMB450,000,000	–	51	Property investment
上海中海海軒房地產有限公司 (iv)	US$196,000,000	–	100	Property investment

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
大連中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development
大連中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
中海新海匯(大連)置業有限公司 (iv)	RMB20,000,000	–	100	Property development
大連中海新城置業有限公司 (iv)	RMB378,520,000	–	100	Property development
中海鼎盛(西安)房地產有限公司 (ii)	RMB2,000,000,000	–	100	Property development
西安中海振興房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
西安中建地產有限公司 (iv)	RMB50,000,000	–	100	Property development
中海海潤(蘇州)房地產有限公司 (iv)	RMB30,000,000	–	100	Property development
中海海納(蘇州)房地產有限公司 (iv)	RMB445,000,000	–	100	Property development
寧波中海創城有限公司 (iv)	RMB1,800,000,000	–	100	Property development
寧波中海海興置業有限公司 (iv)	RMB20,000,000	–	100	Property development
天津中海海盛地產有限公司 (iv)	RMB3,540,000,000	–	100	Property development
天津中海海華地產有限公司 (iv)	RMB100,000,000	–	90	Property development
北京中海金石房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
北京中海新城置業有限公司 (iv)	RMB100,000,000	–	100	Property development
北京智地願景房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
北京仁和燕都房地產開發有限公司 (iv)	RMB40,000,000	–	100	Property development
北京中建興華房地產開發有限公司 (iv)	RMB10,000,000	–	80	Property development
北京慧眼置業有限公司 (iv)	RMB25,000,000	–	80	Property development
佛山中海千燈湖房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海環宇城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海嘉益房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
佛山海裕房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海新海匯置業有限公司 (iv)	RMB20,000,000	–	100	Property development
中海地產(瀋陽)有限公司 (iv)	US$199,600,000	–	100	Property development
瀋陽中海嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海鼎業房地產開發有限公司 (iv)	US$290,000,000	–	100	Property development
杭州中海宏鯤房地產有限公司 (iv)	RMB500,000,000	–	100	Property development
長沙中海興業房地產有限公司 (ii)	RMB662,000,000	–	100	Property development
長沙中建投資有限公司 (iv)	RMB100,000,000	–	70	Investment holding
長沙中海梅溪房地產開發有限公司 (iv)	RMB50,000,000	–	95	Property development
長春中海地產有限公司 (iii)	RMB100,000,000	–	100	Property development
長春海華房地產開發有限公司 (ii)	US$49,800,000	–	100	Property development
長春海悦房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
長春海成房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
青島中海海灣置業有限公司 (iv)	RMB10,000,000	–	100	Property development
青島中海海岸置業有限公司 (iv)	RMB500,000,000	–	100	Property development
南昌中海金鈺地產有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中工建設有限公司 (iv)	RMB380,000,000	–	100	Property development
重慶中海實業有限公司 (ii)	HK$1,300,000,000	–	100	Property development
重慶嘉安置業有限公司 (ii)	HK$300,000,000	–	100	Property development
重慶寶民置業有限公司 (ii)	HK$490,000,000	–	100	Property development
重慶海安投資有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
重慶安喬置業有限公司 (iv)	RMB440,000,000	–	100	Property development
中海地產重慶有限公司 (iv)	RMB20,000,000	–	100	Investment holding
重慶中海興業實業有限公司 (iv)	HK$258,000,000	–	100	Property development
重慶中海投資有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海黎香湖投資有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中海海能房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海海盛房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海興城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
香港華藝設計顧問(深圳)有限公司 (ii)	RMB12,000,000	–	100	Design consultancy services
北京中海華藝城市規劃設計有限公司 (iv)	RMB1,000,000	–	90	Design consultancy services
中海地產(珠海)有限公司 (ii)	RMB405,000,000	–	100	Property development
珠海市嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
珠海市永福通房地產開發有限公司	RMB20,000,000	–	100	Property development
珠海市嘉燁房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
中海地產集團有限公司 (ii)	RMB10,000,000,000	–	100	Property development and investment, and investment holding
深圳中海地產有限公司 (iii)	HK$50,000,000	–	100	Property development
深圳市中海凱驪酒店管理有限公司 (iv)	RMB5,000,000	–	100	Hotel management
深圳市毅駿房地產開發有限公司 (iv)	RMB12,500,000	–	80	Property development
海口中海興業房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
中海地產商業發展(深圳)有限公司 (ii)	RMB20,000,000	–	100	Commercial project
廈門中海海怡地產有限公司 (iv)	RMB10,000,000	–	100	Property development
昆明中海房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
雲南中海城投房地產開發有限公司 (iv)	RMB10,000,000	–	65	Property development
昆明泰運房地產開發有限公司 (ii)	RMB504,375,770	–	100	Property development
煙台中海地產有限公司 (iv)	RMB10,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中海鼎業(煙台)地產有限公司 (ii)	RMB300,000,000	–	100	Property development
煙台中海興業地產有限公司 (iv)	RMB10,000,000	–	100	Property development
廣州毅源房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州世佳房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州荔安房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔駿房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔旭房地產開發有限公司 (iv)	RMB1,300,000,000	–	100	Property development
廣州荔璟房地產開發有限公司 (iv)	RMB1,350,000,000	–	100	Property development
濟南中海地產投資有限公司 (iv)	RMB50,000,000	–	100	Property development
濟南中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
濟南中海城房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development
哈爾濱中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development
哈爾濱中海龍祥房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
太原冠澤置業有限公司 (iv)	RMB200,000,000	–	100	Property development
福州中海地產有限公司 (iv)	RMB30,000,000	–	100	Property development
無錫中海太湖新城置業有限公司 (iv)	RMB10,200,000	–	51	Property development
無錫中海海潤置業有限公司 (iv)	RMB10,200,000	–	51	Property development
鄭州海創房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
新疆中海地產有限公司 (iv)	RMB100,000,000	–	60	Property development
北京中信房地產有限公司 (iv)	RMB50,000,000	–	100	Property development
北京中信新城房地產有限公司 (iv)	RMB500,000,000	–	80	Property development
北京國泰飯店有限公司 (iv)	RMB96,536,700	–	100	Hotel and services apartment operation

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
北京中信新城逸海房地產開發有限公司(iv)	RMB100,000,000	–	67	Property development
大連中信海港投資有限公司(iv)	RMB250,000,000	–	80	Property development
大連中海興隆房地產開發有限公司 (formerly known as 大連中信房地產開發有限公司)(iv)	RMB20,000,000	–	100	Property development
煙台中海華業地產有限公司 (formerly known as 中信房地產煙台有限公司)(iv)	RMB26,430,000	–	100	Property development
中海華南(深圳)有限公司 (formerly known as 中信華南(集團)有限公司)(iv)	RMB472,900,000	–	100	Property development
中海深圳地產投資有限公司 (formerly known as 中信地產深圳投資有限公司)(iv)	RMB20,000,000	–	100	Property development
中海興隆深圳地產有限公司 (formerly known as 中信深圳(集團)有限公司)(iv)	RMB1,500,000,000	–	100	Property development
中海地產(海南)投資有限公司 (formerly known as 中信地產海南投資有限公司)(iv)	RMB20,000,000	–	100	Property development
中信華南(集團)成都有限公司(iv)	RMB50,000,000	–	100	Property development
大連匯港置業有限公司(iv)	RMB50,000,000	–	80	Property development
北京信有成投資有限公司(iv)	RMB2,000,000	–	100	Property development
上海中信華南房地產有限公司(iv)	RMB20,000,000	–	100	Property development
湖南省中信控股有限公司(iv)	RMB100,000,000	–	100	Property development
蘇州中信投資有限公司(iv)	RMB200,000,000	–	100	Property development
珠海市盈凱達房地產有限公司 (formerly known as 中信地產珠海投資有限公司)(iv)	RMB100,000,000	–	100	Property development
中信重慶投資有限公司(iv)	RMB20,000,000	–	100	Property development
中信地產成都有限公司(iv)	RMB100,000,000	–	98	Property development
廣州市東港房地產開發有限公司(iv)	RMB8,000,000	–	55	Property development
中海深圳集團房地產開發有限公司 (formerly known as 中信深圳集團房地產開發有限公司)(iv)	RMB50,000,000	–	95	Property development
佛山市南海中信星暉房地產開發有限公司(iv)	RMB30,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中信前海(深圳)投資有限公司 (iv)	RMB100,000,000	–	67	Property development
深圳市信航城資產管理有限公司 (iv)	RMB5,000,000	–	100	Property development
青島博萊置業有限公司 (iv)	RMB60,000,000	–	100	Property development
天津中信翔達房地產開發有限公司 (iv)	RMB30,000,000	–	70	Property development
深圳市雲龍城投資發展有限公司 (iv)	RMB100,000,000	–	80	Property development
湖南省中信城城市廣場投資有限公司 (iv)	RMB100,000,000	–	100	Property development
湖南省中信置業開發有限公司 (iv)	RMB30,000,000	–	100	Property development
成都信蓉投資有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信蜀投資有限公司 (iv)	RMB40,000,000	–	100	Property development
四川金水灣投資有限公司 (iv)	RMB50,000,000	–	60	Property development
重慶中海振興房屋銷售有限公司 (formerly known as 中信重慶置業開發有限公司)(iv)	RMB50,000,000	–	100	Property development
中信保利達地產(天津)有限公司 (iv)	US$49,500,000	–	51	Property development
成都信勤置業有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信新置業有限公司 (iv)	RMB200,000,00	–	100	Property development
青島博富置業有限公司(iii)	RMB863,975,000	–	81.48	Property development
中海(萬寧)房地產有限公司 (formerly known as 中信泰富萬寧發展有限公司)(iv)	US$25,000,000	–	100	Property development
中海聯合(萬寧)房地產有限公司 (formerly known as 中信泰富萬寧(聯合)開發有限公司)(iv)	RMB100,000,000	–	80	Property development
中海仁信(萬寧)房地產開發有限公司 (formerly known as 萬寧仁信發展有限公司)(iv)	US$100,000,000	–	100	Property and tourism development

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
萬寧仁和發展有限公司 (iv)	US$206,200,000	–	99.9	Property development and hotel operation
萬寧金信發展有限公司 (iv)	US$53,200,000	–	99.9	Property development
中海鼎業（萬寧）房地產有限公司 (formerly known as 中信泰富萬寧瑞安發展有限公司)(iv)	US$86,000,000	–	99.9	Property development
紀亮（上海）房地產開發有限公司 (iv)	US$79,600,000	–	100	Property development
上海老西門新苑置業有限公司 (iv)	RMB2,500,000	–	100	Property development
上海珠街閣房地產開發有限公司 (iv)	US$161,500,000	–	100	Property development

(i) Incorporated in the British Virgin Islands
(ii) Foreign investment enterprise registered in the PRC
(iii) Joint stock limited company established in the PRC
(iv) Limited liability company registered in the PRC
(v) Incorporated in the Cayman Islands
(vi) Incorporated in Macau
(vii) Incorporated in Luxembourg
(viii) Incorporated in Jersey

None of the subsidiaries had any debt securities in issue at the end of the year except for China Overseas Finance (Cayman) II Limited, China Overseas Finance (Cayman) III Limited, China Overseas Finance (Cayman) IV Limited, China Overseas Finance (Cayman) V Limited, China Overseas Finance (Cayman) VI Limited, China Overseas Land International (Cayman) Limited, China Overseas Land International II (Cayman) Limited, 中海地產集團有限公司 and 中信房地產集團有限公司, which have issued US$1,000,000,000, US$1,500,000,000, US$750,000,000, US$1,000,000,000, US$2,000,000,000, EUR600,000,000, EUR400,000,000, RMB14,000,000,000 and RMB50,000,000 notes payable (Note 35), respectively.

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