

Investor Q&A

Question: The anonymous short report alleges that the Company inflated its profit attributable to owners and returns to non-controlling interests were relatively low.

- The Company's profit attributable to owners are audited.
- The Company's after-tax profit attributable to non-controlling shareholders in FY2016 to FY2018 and 1H2019 have been increasing consistently, amounting to RMB126 million, RMB312 million, RMB531 million and RMB528 million, respectively. The total non-controlling interests have generally remained stable after 2017, demonstrating that non-controlling shareholders' earnings are gradually recognized with successful project delivery and profit recognition in the past few years. The management believes that as projects sold in 2017 to 2019 gradually deliver, the Company's non-controlling shareholders' earnings in 2019 and the next two years will be more visible. We ask our investors to stay tuned.
- The Company usually retains the original project shareholder in M&A projects to control investment risk. The delivery period is usually two to three years while for some projects which have a longer delivery period and are larger in value, such as urban redevelopment projects in Greater Bay Area, cultural tourism projects, etc., the delivery period could be five years or even longer, which would require longer time for non-controlling interests to be reflected. As the conversion process of urban redevelopment projects is picking up and cultural tourism projects are commencing operations, the management is confident in providing fruitful returns to our partners.

Question: The anonymous short report alleges that the Company's cash collection on contracted sales was inflated, and future recognized sales would be significantly lower than expected.

- The contracted sales figure cited in this anonymous short report is tax-inclusive, while the figure of recognized sales from property development disclosed in the consolidated financial statements is net sales excluding tax. There is a difference between the two which cannot be directly compared. The VAT rate for property sales under the tax law is 9%.
- The Company's property contracted sales from 2015 to 2017 are RMB15.17 billion, RMB25.60 billion, and RMB45.59 billion, respectively. The audited recognized sales of property development in 2017 and 2018 are RMB17.96 billion and RMB29.74 billion, respectively. The reviewed recognized sales of property development in 1H2019 is RMB22.42 billion. The Company announced positive profit alert on 25 February 2020 and is expected to record a y-o-y increase of over 50% in the core net profit. Meanwhile, the Company is expected to record a y-o-y increase of over 60% in recognized sales of property development. Therefore, recognized sales of property development will be higher than the contracted sales recorded two years ago, in line with the industry average delivery period of about two years. The management is confident that it will gradually recognize its contracted sales in 2018 and 2019 as disclosed accordingly.
- The trade receivable from recognized sales of property development in end-December 2017, end-December 2018 and end-June 2019 are RMB277 million, RMB442 million, and RMB514 million, respectively, accounting for 1.5%, 1.5% and 2.3%, respectively, of the recognized sales of property development of the corresponding period. These ratios are at an industry-leading level, sufficiently demonstrating that the Company's contracted sales come with solid cash collection.

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Question: The anonymous short report alleges that the Company finances property development projects through its subsidiary, Aoyuan Fund, which might constitute violation of regulations.

- Aoyuan Fund is a private equity investment institution under Aoyuan. It is not a financial institution such as a bank. Its operations are in compliance with Law on Securities Investment Fund, Interim Measures for the Supervision and Administration of Privately Offered Investment Funds, as well as other legal requirements and industry regulations. All equity fund products issued by Aoyuan Fund are managed/supervised by custodian institutions and registered with Asset Management Association of China as required. Some projects involve connected transactions which are all in compliance with laws and regulations currently in effect. Such connected transactions have all been fully disclosed to Asset Management Association of China and investors. These projects can be exited through liquidation or deemed liquidation. No principal- or return-guarantee was made to investors. Operations of Aoyuan Fund are legal and compliant.
- The fixed-income products issued by Aoyuan Fund are registered on the exchanges of local governments and are legal and compliant. Aoyuan Fund is the service provider while project companies are the product issuers. All fixed-income products issued are categorized as project companies' debt and included in the Company's interest-bearing debt, they are not non-controlling interests.

Note: Please refer to company announcements on HKEx.

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