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越秀地產股份有限公司
YUEXIU PROPERTY COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 00123)

CONNECTED TRANSACTION

Exercise of Call Option

The Board is pleased to announce that on 31 August 2015, the Parties entered into the Call Option Exercise Agreement, pursuant to which GZYG has exercised the Call Option granted by the JV Partner under the Cooperation Agreement. On 31 August 2015, in order to effect the Equity Transfer upon the exercise of the Call Option by GZYG, simultaneously with the entering into of the Call Option Exercise Agreement, GZYG and the JV Partner entered into the Equity Transfer Agreement, pursuant to which GZYG has agreed to purchase and the JV Partner has agreed to sell the JV Partner's Equity Interests, representing 80% of the total equity interests in the Project Company. The consideration payable by GZYG upon the full exercise of the Call Option is RMB194,845,556, which is calculated based on (a) the JV Partner's Actual Contribution plus (b) the amount equal to the JV Partner's Actual Contribution (or if the JV Partner's Actual Contribution is made by instalments, in respect of each instalment of the JV Partner's Actual Contribution) multiplied by an internal rate of return of 11% per year (before tax) based on the period of time that the JV Partner's Actual Contribution is contributed into the Project Company.

As the JV Partner is regarded as a connected person of the Company under the Listing Rules as disclosed in the JV Announcement, the exercise of the Call Option (including the entering into of the Equity Transfer Agreement and the Call Option Exercise Agreement) constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios in respect of the exercise of the Call Option is more than 0.1% but less than 5%, the exercise of the Call Option (including the entering into of the Equity Transfer Agreement and the Call Option Exercise Agreement) is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

BACKGROUND

Reference is made to the JV Announcement. The Project Company is owned as to 20% and 80% respectively by GZYG and the JV Partner as at the date of this announcement.

EXERCISE OF THE CALL OPTION

The Call Option

On 25 June 2013, GZYG and the JV Partner entered into the Cooperation Agreement, pursuant to which the JV Partner granted the Call Option to GZYG for it to acquire the JV Partner's Equity Interests at an exercise price to be determined based on an internal rate of return of 11% (before tax) on the equity and shareholders loan(s) injected by the JV Partner into the Project Company.

The Exercise period

The Call Option is exercisable by GZYG during the period commencing on the first anniversary and ending on the eighteenth month (or such extended period as agreed between the Parties in writing) from the due day for payment of registered capital into the capital account of the Project Company by the JV Partner, being 12 July 2013 pursuant to the Cooperation Agreement. As such, the exercise period of the Call Option commenced on 12 July 2014 and ended on 11 January 2015. Pursuant to the relevant provision of the Cooperation Agreement and the written confirmation letter dated 31 December 2014 executed by GZYG and the JV Partner, GZYG and the JV Partner agreed to extend the expiration date of the abovementioned exercise period of the Call Option to 30 September 2015.

Exercise of the Call Option

On 31 August 2015, GZYG exercised the Call Option granted by the JV Partner under the Cooperation Agreement by entering into the Call Option Exercise Agreement and the Equity Transfer Agreement with the JV Partner.

Consideration

Pursuant to the Cooperation Agreement, the exercise price of the Call Option for the JV Partner's Equity Interests shall be determined based on an internal rate of return of 11% (before tax) on the equity and shareholders loan(s) injected by the JV Partner into the Project Company, as disclosed in the JV Announcement.

As at the date of this announcement, the Project Company has repaid in full all shareholders loan(s) owed by it, and there is no outstanding shareholder loan owed by the Project Company to any of its shareholders. Accordingly, the Parties have agreed that the consideration payable by GZYG upon the full exercise of the Call Option is RMB194,845,556, which is calculated based on (a) the JV Partner's Actual Contribution plus (b) the amount equal to the JV Partner's Actual Contribution (or if the JV Partner's Actual Contribution is made by instalments, in respect of each instalment of the JV Partner's Actual Contribution) multiplied by an internal rate of return of 11% per year (before tax) based on the period of time that the JV Partner's Actual Contribution is contributed into the Project Company. It is intended that such consideration will be satisfied by the internal resources of the Group.

The Equity Transfer Agreement

On 31 August 2015, in order to effect the Equity Transfer upon the exercise of the Call Option by GZYG, simultaneously with the entering into of the Call Option Exercise Agreement, GZYG and the JV Partner entered into the Equity Transfer Agreement. The principal terms of the Equity Transfer Agreement are set out below.

Date

31 August 2015

Parties

GZYG and the JV Partner

Assets to be acquired by the Group

GZYG has agreed to purchase and the JV Partner has agreed to sell the JV Partner's Equity Interests, representing 80% of the total equity interests in the Project Company.

Consideration and payment terms

The consideration in the amount of RMB194,845,556 shall be payable in full by GZYG in RMB to the JV Partner via wire transfer within 10 business days from the effective date of the Equity Transfer Agreement.

Completion of the Equity Transfer

The articles of association of the Project Company shall be amended to reflect the Equity Transfer, and such amended articles of association together with the Equity Transfer Agreement and other relevant documents in relation to the Equity Transfer shall be submitted to the relevant approval authority for approval and/or filing.

Upon signing of the Equity Transfer Agreement, the Parties shall arrange for the necessary procedures and provide the necessary documents to the Project Company for it to apply to the relevant approval authority for approval of the Equity Transfer. Within 5 business days from the day on which the abovementioned filing and registration are made, the Parties shall procure the Project Company to arrange for the registration of the Equity Transfer with the State Administration for Industry and Commerce of the PRC or its relevant local counterpart. Completion of the Equity Transfer shall take place on the day that such registration is completed.

Termination

The Equity Transfer Agreement may be terminated at the occurrence of any one of the following events:

1. force majeure;
2. loss of capacity to fulfil the Equity Transfer Agreement by a Party;
3. material breach by a Party;
4. the relevant approval authority not approving the Equity Transfer not due to the fault of either Parties; or
5. agreement between the Parties to terminate.

Upon termination of the Equity Transfer Agreement, the JV Partner shall fully refund the consideration already paid by GZYG within 10 business days from the date of termination, failing which, the JV Partner must pay to GZYG on a daily basis a penalty equal to 0.05% of the amount of refund payable but not yet paid by the JV Partner until such refund amount has been paid by the JV Partner.

Termination of Cooperation Agreement

As a result of the exercise of the Call Option, the Cooperation Agreement will be terminated on the day that the Equity Transfer is completed. Upon completion of the exercise of the Call Option, the Project Company will become a wholly-owned subsidiary of GZYG and an indirect wholly-owned subsidiary of the Company.

BASIS OF VALUATION OF PROPERTY

To assist the Directors to assess whether the Company should exercise the Call Option, the Company has appointed the Independent Valuer to conduct valuation on the fair value of the equity interests in the Project Company and the fair value of the Property. According to the valuation of the Independent Valuer, the fair value of the equity interests in the Project Company and the fair value of the Property as at the Valuation Date were approximately RMB246 million and approximately RMB794 million respectively. The appreciation in value was approximately RMB72.4 million in respect of the Property.

In respect of the valuation of the fair value of the equity interests in the Project Company, the Independent Valuer had adopted the asset approach, which is based on the economic principle of substitution and measures the fair value of the Project Company as at the Valuation Date and the cost of replacing such assets.

In respect of the valuation of the Property, the Independent Valuer had adopted the direct comparison approach as the main methodology, which is generally and commonly considered to be the appropriate methodology to value real properties when relevant sale evidence is available. Such valuation pursuant to the direct comparison approach was cross checked by another approach by the Independent Valuer, which assumed the Property will be developed and completed in accordance with the latest development proposal and has taken into account the development costs relevant to the stage of construction and the remainder costs to completion as at the Valuation Date. The Directors (including the independent non-executive Directors) consider this methodology appropriate taking into account that the Property is still in the early stage of development and market comparable transactions are readily available for reference.

According to the valuation by the Independent Valuer, the fair value of the equity interests in the Project Company after taking into account the appraised value of the Property is approximately RMB246 million, accordingly the JV Partner's Equity Interests would be valued at approximately RMB196.8 million. As such, the consideration payable upon the full exercise of the Call Option of RMB194,845,556 represents a discount of approximately 1.0% to the fair value of the JV Partner's Equity Interests.

REASONS FOR AND BENEFITS OF THE EXERCISE OF THE CALL OPTION

During the first half of 2015, the PRC government implemented numerous policies which affected the PRC real estate market, such as removing the restriction on having more than two sets of properties, lowering the down payment ratio, lowering the reserve requirement ratio for banks and lowering standard interest rates. These policies contributed to the rebounding of the Hangzhou property market. In addition, it is reported from publicly available information that, as at 30 June 2015, the contracted sales of the newly constructed residential property in Hangzhou, where the Property is located reached a record high for half year sales in the past 7 years and represents an increase of approximately 89.8% compared to the corresponding period of 2014. The average transacted price of residential flats increased significantly by approximately 15.6% while the inventory of residential flat has dropped from April 2015 to June 2015, which indicated a signal of growing property market development in Hangzhou.

Accordingly, the Directors believe that the exercise of the Call Option will provide a good opportunity for the Group to increase its land bank in Hangzhou without exposing itself to the market risks and financial burden associated with the initial stage of project development, which is strategically important to the Group's operation and future development. It is also estimated that demand for properties in Hangzhou will continue to increase in the future as a result of the above relaxation in property related policies and depreciation of RMB.

It is currently intended that the Property will be sold in phases shortly after completion of the exercise of the Call Option. It is estimated that the completion of the exercise of the Call Option will provide immediate contribution to the Group's contracted sales and cash flows. Therefore, the Directors consider that through the exercise of the Call Option and the subsequent sale of the Property, the Group can realize its investment in the Project Company and the Property and maximize the revenue generated from the Property for the Group.

Taking into account: (i) the valuation of the Project Company and the Property by the Independent Valuer; (ii) the exercise price of the Call Option representing a discount of approximately 1.0% to the fair value of the JV Partner's Equity Interests; and (iii) the reasons and benefits described above, the Directors (including the independent non-executive Directors) consider that the terms of the exercise of the Call Option, the Call Option Exercise Agreement and Equity Transfer Agreement (including the consideration payable upon full exercise of the Call Option) are on normal commercial terms, in the ordinary course of business of the Company, fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE PROJECT COMPANY AND THE LAND PARCEL

The Project Company

The Project Company is a limited company incorporated under the laws of the PRC. It is principally engaged in operation and development of real estate and property management. The Project Company is owned as to 20% and 80% respectively by GZYG and the JV Partner as at the date of this announcement.

A summary of the unaudited consolidated financial statements of the Project Company prepared in accordance with the PRC Generally Accepted Accounting Principles for the period from the date of its incorporation (i.e. 23 July 2013) up to 31 December 2013, for the financial year ended 31 December 2014 and for the six months ended 30 June 2015 is as follows:

	From 23 July 2013 to 31 December 2013 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>	For the six months ended 30 June 2015 <i>RMB'000</i>
Revenue	—	—	—
Net loss before taxation	—	10,663	2,818
Net loss after taxation	—	10,663	2,818
	As at 31 December 2013 <i>RMB'000</i>	As at 31 December 2014 <i>RMB'000</i>	As at 30 June 2015 <i>RMB'000</i>
Total assets	450,562	678,830	743,481
Total liabilities	250,562	489,493	556,962
Net assets	200,000	189,337	186,519

The Land Parcel

The Land Parcel has a site area of approximately 12,132 sq.m. and a total gross floor area of approximately 71,900 sq.m.. The total land premium of the Land Parcel is RMB584,120,000.

The Land Parcel is situated in Northern District, Phase One, Qianjiang New City, Jianggan District, Hangzhou City of the PRC. Some of the best riverside resources, namely the Qiantang River and the Riverside Park, rest on the south-east side of the Land Parcel and create a beautiful environment next to the Land Parcel. Moreover, the Land Parcel is close to the Hangzhou city center, which is currently undergoing large-scale redevelopments of old villages to form the Qianjiang New City that comprises of a cluster of commercial and residential buildings. The Land Parcel could be developed as commercial complexes in the Qianjiang New City and could have huge potential.

INFORMATION OF THE COMPANY, GZYG AND THE JV PARTNER

The Company

The Company is incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00123) and on Singapore Exchange Securities Trading Limited. It is principally engaged in property development and investment, mainly focusing on properties in Guangzhou and gradually expanding into the Pearl River Delta, Yangtze River Delta, Bohai Rim Economic Zone and Central Region.

GZYG

GZYG is a wholly-owned subsidiary of the Company and is an investment holding company incorporated under the laws of the PRC.

JV Partner

The JV Partner is a limited partnership investment fund established under the laws of the PRC. The JV Partner principally engages in the business of property investment and management. Guangzhou Yuexiu, which indirectly holds approximately 49.7% of the total issued shares in the Company as of the date of this announcement, is a majority shareholder of the general partner of the JV Partner. The JV Partner is regarded as a connected person of the Company by virtue of its relationship with Guangzhou Yuexiu.

IMPLICATIONS OF THE LISTING RULES

As the JV Partner is regarded as a connected person of the Company under the Listing Rules as disclosed in the JV Announcement, the exercise of the Call Option (including the entering into of the Equity Transfer Agreement and the Call Option Exercise Agreement) constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios in respect of the exercise of the Call Option is more than 0.1% but less than 5%, the exercise of the Call Option (including the entering into of the Equity Transfer Agreement and the Call Option Exercise Agreement) is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

As none of the Directors had a material interest in the exercise of the Call Option and the Equity Transfer, no Director was required to abstain from voting on the relevant board resolution.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors of the Company
“Call Option”	the call option granted by the JV Partner to GZYG for it to acquire the JV Partner’s Equity Interests of the Project Company under the Cooperation Agreement
“Call Option Exercise Agreement”	the call option exercise agreement dated 31 August 2015 entered into between the Parties regarding the exercise of the Call Option by GZYG
“Company”	Yuexiu Property Company Limited, a limited liability company incorporated under the laws of Hong Kong and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00123) and on the Singapore Exchange Securities Trading Limited
“connected person”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	the cooperation agreement dated 25 June 2013 entered into between the Parties, including if the context requires, the previous bidding agreement between the Parties that have been superseded by the said cooperation agreement

“Directors”	the directors of the Company
“Equity Transfer”	the transfer of the JV Partner’s Equity Interests by the JV Partner to GZYG pursuant to the Equity Transfer Agreement as a result of the exercise of the Call Option under the Cooperation Agreement
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Parties dated 31 August 2015 regarding the Equity Transfer
“Group”	the Company and its subsidiaries
“Guangzhou Yuexiu”	廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), a limited liability company incorporated in the PRC which is beneficially wholly-owned by the Guangzhou Municipal People’s Government of the PRC
“GZYG”	廣州越港房地產開發有限公司 (Guangzhou Yuegang Property Development Limited*), a wholly-owned subsidiary of the Company incorporated under the laws of PRC with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	Greater China Appraisal Limited
“JV Announcement”	the announcement of the Company dated 25 June 2013 in relation to, among others, the formation of the Project Company for the development of the Land Parcel
“JV Partner”	深圳市越秀鵬程房地產投資合夥企業(有限合夥) (Shenzhen Yuexiu Pengcheng Real Estate Investment Partnership (Limited Partnership)*)
“JV Partner’s Actual Contribution”	the contribution of registered capital in the Project Company actually made by the JV Partner
“JV Partner’s Equity Interests”	all of the 80% equity interests in the Project Company held by the JV Partner as at the date of this announcement

“Land Parcel”	the parcel of land situated in Northern District, Phase One, Qianjiang New City, Jianggan District, Hangzhou City of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	GZYG and the JV Partner and each a “Party”
“PRC”	the People’s Republic of China and for the purpose of this announcement excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Project Company”	杭州越輝房地產開發有限公司 (Hangzhou Yuehui Real Estate Development Co., Ltd.*), the joint venture established by the Parties in relation to the development of the Land Parcel pursuant to the terms of the Cooperation Agreement
“Property”	the commercial property being developed on the Land Parcel
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Valuation Date”	30 June 2015

* *for identification purposes only*

By Order of the Board
Yuexiu Property Company Limited
Yu Tat Fung
Company Secretary

Hong Kong, 31 August 2015

As at the date of this announcement, the Board comprises:

Executive Directors: ZHANG Zhaoxing (Chairman), ZHU Chunxiu, TANG Shouchun, CHEN Zhihong, LI Feng and OU Junming

Independent Non-executive Directors: YU Lup Fat Joseph, LEE Ka Lun and LAU Hon Chuen Ambrose