廣州富力地產股份有限公司
GUANGZHOU R&F PROPERTIES CO., LTD.*

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2777)

SUPPLEMENTAL ANNOUNCEMENT

Reference is made to the announcement of Guangzhou R&F Properties Co., Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") dated 9 April 2020 in relation to, among other matters, the disposal of property management companies by the Group (the "**Announcement**"). Unless the context requires otherwise, capitalized terms used herein shall have the same meaning as defined in the Announcement.

Further to the Announcement, the Company would like to supplement the basis for determining the consideration for the Disposals (the "**Consideration**") and the reasons for the Disposals as follows.

BASIS OF THE CONSIDERATION

The Consideration was arrived at after arm's length negotiations between the parties with reference to the registered and paid-up capital amount of the Target Companies.

The Directors (including the independent non-executive Directors but excluding the Interested Directors) take the view that the Consideration is at normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole based on the following:

(1) the Company has engaged 國眾聯資產評估土地房地產估價有限公司 (for identification only, GuoZhongLian Asset Appraisal Land Real Estate Valuation Co., Ltd.) (the "**Valuer**"), an independent qualified valuer in the PRC, to assess the fair market value of the entire equity interest in each of the Target Companies (the "**Valuations**"). The appraised value of the entire equity interest in the Target Companies on a combined basis is RMB272,472,200. The Consideration represents a premium of approximately 13.8% over the appraised value of the Target Companies;

(2) the Company has engaged Maxa Capital Limited (the "**IFA**"), a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as independent financial adviser to provide independent financial advice to the independent non-executive Directors in respect of the Disposals, even though the Disposals are exempted from the independent financial advice requirement pursuant to Rule 14A.76 of the Listing Rules. The IFA is of the view that the Consideration is fair and reasonable having taken into consideration, among others, the reasons for, and the financial effects of, the Disposals, the Valuations, the key financial indicators of five property management companies that were acquired and publicly announced by listed issuers on the Main Board of the Stock Exchange within 12 months from the date of the Third Agreement (the "**Non-listed Transactions**"), and the key financial indicators of 23 property management companies listed on the Main Board of the Stock Exchange (the "**Listed Companies**"); and

(3) although the Consideration represents a price-to-earnings (P/E) ratio of the Target Companies (approximately 6 times on a combined basis) which is at the lower end of the range of P/E ratio of the Non-listed Transactions (approximately 6 to 17 times) and the Listed Companies (approximately 4 to 63 times), there are factors that would justify a lower valuation when compared with the Non-listed Transactions and the Listed Companies; and these factors include:

    (i) the Target Group is not listed as compared with the Listed Companies;

    (ii) the Target Companies were loss-making during the two years ended 31 December 2018 and only managed to record a net profit in 2019 on a combined basis. Their net profit margin is low as compared with the Listed Companies and (to the extent that there is publicly available information for comparison) the acquisition targets in the Non-listed Transactions. There is no assurance that the Target Companies will continue to stay profitable or will be able to achieve a higher net profit margin in the future. In contrast, the Listed Companies and the acquisition targets in all of the Non-listed Transactions have an established track record of profitability; and

    (iii) the Target Companies had net liabilities on a combined basis whereas the Listed Companies and the acquisition targets in the Non-listed Transactions had a net asset position. With net liabilities, it would be difficult for the Target Companies to raise external borrowings, which could limit their operations and development.

THE VALUATIONS

Methodology

The Valuer has adopted the income approach for the valuation of the Target Companies, and the free cash flow to equity (FCFE) model under the discounted cash flow (DCF) approach as the primary indicator for the expected revenue of each Target Company's operating assets. The expected revenue and costs of the Target Companies adopted for the purpose of the DCF approach are based on the budgets prepared by the respective management teams of the Target Companies, the rationality of which has been reviewed by the Valuer. The cash flow of the Target Companies adopted in the DCF approach has also been reviewed by the Board to the extent appropriate.

The discounted cash flow model for the First Target Company and the Second Target Company covered the period from 1 November 2019 to 31 December 2025. The discounted cash flow model for the Third Target Company covered the period from 1 January 2020 to 31 December 2026.

The Valuer used the capital asset pricing model (CAPM) to estimate the required rate of return on equity of each of the Target Companies and it is necessary to determine an appropriate discount rate to discount future cash flows. In arriving the discount rate, the Valuer has taken into account various factors including, among others, (i) the risk-free rate; (ii) the market risk premium; (iii) equity beta; (iv) specific risk adjustment factor; and (v) unleveraged beta of comparable company. The discount rate adopted by the Valuer is 11.93% for the First Target Company, 11.93% for the Second Target Company and 13% for the Third Target Company.

Appraised value of each of the Target Companies

	The First Target Company	**The Second Target Company**	**The Third Target Company**
Valuation reference date	31 October 2019	31 October 2019	31 December 2019
Appraised value	(RMB6,862,700)	RMB2,152,100	RMB277,182,800

The appraised value of the entire equity interest in the First Target Company is negative. The Directors take the view that it is not unreasonable for the appraised value of the First Target Company to be negative on the following grounds: (i)(a) the First Target Company had net liabilities of approximately RMB7.5 million as at 31 October 2019, (b) it was loss-making during the two years ended 31 December 2017 and the ten months ended 31 October 2019, and (c) it only recorded an insignificant net profit after tax of RMB18,100 during the year ended 31 December 2018; and (ii) the buyer would incur an immediate loss upon completion of the acquisition and that the profitability of the First Target Company is doubtful.

Assumptions

The key assumptions adopted by the Valuer in the valuation on the Target Companies are summarized below:

(1) There is no unforeseen material change in (a) the laws, rules, regulations and state policies applicable to the Target Companies' industry in the PRC, (b) the socio-economic environment in the PRC and the global financial and economic environment, (c) the taxation system, policies and rates in the PRC, (d) the business model, business operations, management standard, financial structure and accounting policies of the Target Companies, (e) the industry and market to which the Target Companies belong.

(2) The Target Companies will continue to operate on a going concern basis.

(3) The bank lending interest rates and foreign exchange rates in the PRC will fluctuate within a reasonable range.

(4) No force majeure event or material adverse change will occur.

(5) There is good marketable title to the entire equity interest in the Target Companies and such equity interest is unencumbered.

(6) All necessary licenses, approvals, consents and other authorizations required under the applicable laws, rules and regulations in relation to the equity interest in the Target Companies have been obtained and can be renewed.

(7) The Target Companies have complied with all applicable laws, rules and regulations in relation to their operations.

The Board's view

To the best of the Directors' knowledge, having made all reasonable enquiries, the methodologies and key assumptions adopted by the Valuer in the Valuations are commonly adopted in similar valuation exercises, and nothing has come to the attention of the Board that would cast doubt on the fairness and reasonableness of the valuation methodologies and key assumptions adopted in the Valuations.

CONTRIBUTION

The revenue and profit contribution of the Target Companies to the Group in 2019 is set out below:

	The Target Companies (on a combined basis) *(Note 1)* *(RMB' million)*	**The Group** *(Note 2)* *(RMB' million)*	**Percentage contribution to the Group** *(Approximate %)*
Revenue	2,329.1	90,814.0	2.56%
Net profit before tax	76.8	18,226.3	0.42%
Net profit after tax	54.1	10,093.2	0.54%

Notes:

1. For the First Target Company and the Second Target Company, based on their unaudited management accounts for the ten months ended 31 October 2019. For the Third Target Company, based on its unaudited consolidated management accounts for the year ended 31 December 2019.

2. For the Group, based on the Company's audited consolidated financial statements for the year ended 31 December 2019.

REASONS FOR THE DISPOSALS

The Group's core business is property development and investment which is capital intensive and asset-heavy in nature. The property management business of the Target Companies is characterized as asset-light, labour intensive and service oriented, and required different management expertise, competencies and development strategy as compared to the Group's core business.

The property management business has limited contribution to the overall profitability of the Group. The Consideration paid by the Purchaser represented a premium to the appraised value by the Valuer resulting in a gain of approximately RMB486 million (subject to final audit) to the Group. With the Disposals, the Group can focus on its core business and utilize the proceeds from the Disposals for its core business. The Company has not entered into and does not currently intend to enter into any arrangement or agreement in respect of the operations of the Target Companies, save for the provision of the Services by the Target Companies to the Group from time to time under the Existing Service Agreements and the Framework Agreement. The Company understands that the Purchaser intends to continue the principal businesses of the Target Companies barring unforeseen circumstances. After the Disposals, the Group has ceased to operate the property management business in the PRC but continues to operate the property management business in Malaysia and Cambodia.

The Group looks to the Target Group for quality and reliable services to its projects under the Existing Service Agreements and the Framework Agreement. The Company has not solicited other potential buyers. While the Company does not control the Target Companies after completion of the Disposals, the ownership continuity of the Target Companies is maintained as Dr. Li and Mr. Zhang are the ultimate controlling shareholders of the Company and the Target Companies before and after completion of the Disposals. It is in the interest of the Company and the Shareholders that ownership continuity of the Target Group is maintained so as to ensure that the Target Group will continue to manage its projects (including the property projects developed by the Group) on a consistent basis thereby protecting the value of the R&F brand, and the Group can continue to leverage the relationship with the Target Group to achieve its business objectives.

By order of the Board
Guangzhou R&F Properties Co., Ltd.
Cheung Sze Yin
Joint Company Secretary

25 May 2020, Hong Kong

As at the date of this announcement, the executive directors of the Company are Dr. Li Sze Lim, Mr. Zhang Li, Mr. Zhou Yaonan and Mr. Lu Jing; the non-executive directors are Ms. Zhang Lin and Ms. Li Helen; and the independent non-executive directors are Mr. Zheng Ercheng, Mr. Ng Yau Wah, Daniel and Mr. Wong Chun Bong.

* *For identification purposes only*