

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.*



**SHIFANG HOLDING LIMITED**

**十方控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1831)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**FINANCIAL HIGHLIGHTS**

- Revenue decreased by approximately 32.1% from approximately RMB270.3 million for the year ended 31 December 2013 to approximately RMB183.6 million for the year ended 31 December 2014.
- Gross profit decreased by approximately 38.9% from approximately RMB76.0 million for the year ended 31 December 2013 to approximately RMB46.4 million for the year ended 31 December 2014.
- The Group recorded a net loss for the year of RMB307.1 million for the year ended 31 December 2014, mainly attributable to (i) decline in newspaper advertising revenue; (ii) provision for impairment on certain prepayments, deposits and other receivables due from certain cooperative metropolitan newspaper publishers; and (iii) provision for impairment of interest in an associate.
- The Group recorded a basic loss per share of RMB0.3621 for the year ended 31 December 2014 as compared to a basic loss per share of RMB0.6153 for the year ended 31 December 2013.
- Gearing ratio, the proportion of the Group's total borrowings to total assets, remained unchanged at 0% since 31 December 2013. No borrowings were drawn by the Group during the year.
- The Board of Directors does not recommend the payment of any final dividend for the year ended 31 December 2014.

The Board of Directors (the “**Board**”) of ShiFang Holding Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2014 together with the comparative figures for the corresponding year of 2013.

The financial information set out in this announcement below does not constitute the Group’s consolidated financial statements for the year ended 31 December 2014 but represents an extract from those financial statements. The financial information has been reviewed by the audit committee of the Company (the “**Audit Committee**”). The figures in respect of the Group’s consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2014 as set out in this announcement have been agreed by the Group’s external auditor, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

## CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	<i>Note</i>	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>40,107</b>	55,146
Intangible assets		<b>18,150</b>	21,466
Interests in associates	<i>5</i>	<b>9,121</b>	59,993
Prepayments, deposits and other receivables	<i>7</i>	<b>25,294</b>	160,947
		<b>92,672</b>	297,552
<b>Current assets</b>			
Inventories		<b>6,560</b>	6,789
Assets held for sale		<b>78,191</b>	27,492
Trade receivables – net	<i>6</i>	<b>45,493</b>	47,324
Prepayments, deposits and other receivables	<i>7</i>	<b>22,273</b>	92,641
Amounts due from related parties		<b>24,364</b>	19,867
Short-term bank deposits		<b>5,000</b>	50,000
Cash and cash equivalents		<b>32,487</b>	53,911
		<b>214,368</b>	298,024
<b>Total assets</b>		<b>307,040</b>	595,576
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	<i>9</i>	<b>72,687</b>	72,687
Share premium	<i>9</i>	<b>556,440</b>	556,440
Other reserves		<b>68,671</b>	107,614
Accumulated deficits		<b>(486,591)</b>	(233,880)
		<b>211,207</b>	502,861
Non-controlling interests		<b>(4,876)</b>	9,804
<b>Total equity</b>		<b>206,331</b>	512,665

		2014	2013
	<i>Note</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Amount due to a related party		688	–
Deferred income tax liabilities		<u>1,475</u>	<u>2,157</u>
		<u>2,163</u>	<u>2,157</u>
<b>Current liabilities</b>			
Trade payables	8	5,889	6,653
Other payables and accrued expenses		60,890	38,707
Current income tax liabilities		30,536	35,049
Amounts due to related parties		<u>1,231</u>	<u>345</u>
		<u>98,546</u>	<u>80,754</u>
<b>Total liabilities</b>		<b><u>100,709</u></b>	<b><u>82,911</u></b>
<b>Total equity and liabilities</b>		<b><u>307,040</u></b>	<b><u>595,576</u></b>
<b>Net current assets</b>		<b><u>115,822</u></b>	<b><u>217,270</u></b>
<b>Total assets less current liabilities</b>		<b><u>208,494</u></b>	<b><u>514,822</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2014*

	<i>Note</i>	<b>2014</b> <b>RMB'000</b>	2013 <i>RMB'000</i>
<b>Revenue</b>	<i>3</i>	<b>183,556</b>	270,326
Cost of sales	<i>11</i>	<u>(137,204)</u>	<u>(194,279)</u>
<b>Gross profit</b>		<b>46,352</b>	76,047
Selling and marketing expenses	<i>11</i>	(29,515)	(32,287)
General and administrative expenses	<i>11</i>	(84,590)	(221,493)
Provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables	<i>7(i)</i>	(126,097)	(358,741)
Other (losses)/gains – net	<i>10</i>	(62,174)	33,664
Other income	<i>10</i>	<u>3,278</u>	<u>3,694</u>
<b>Operating loss</b>		<b>(252,746)</b>	(499,116)
Finance income		<b>1,239</b>	454
Finance costs		<u>(62)</u>	<u>(1,839)</u>
Finance income/(costs) – net		<b>1,177</b>	(1,385)
Share of losses of associates	<i>5</i>	(5,191)	(169)
Provision for impairment of interest in an associate	<i>5</i>	<u>(46,026)</u>	<u>–</u>
<b>Loss before income tax</b>		<b>(302,786)</b>	(500,670)
Income tax expense	<i>12</i>	<u>(4,318)</u>	<u>(13,715)</u>
<b>Loss and total comprehensive loss for the year</b>		<b>(307,104)</b>	(514,385)
<b>Loss and total comprehensive loss attributable to:</b>			
– Equity holders of the Company		(304,174)	(516,834)
– Non-controlling interests		<u>(2,930)</u>	<u>2,449</u>
		<b><u>(307,104)</u></b>	<b><u>(514,385)</u></b>
Loss per share for loss attributable to equity holders of the Company			
– Basic ( <i>RMB per share</i> )	<i>13</i>	(0.3621)	(0.6153)
– Diluted ( <i>RMB per share</i> )	<i>13</i>	<u>(0.3621)</u>	<u>(0.6153)</u>
Dividend	<i>14</i>	<u>–</u>	<u>–</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 General information

ShiFang Holding Limited (the “Company”) is an investment holding company and its subsidiaries (together, the “Group”) are principally engaged in the business of publishing and advertising (the “Publishing and Advertising Businesses”) in the People’s Republic of China (the “PRC”).

The Company was incorporated in the Cayman Islands on 9 December 2009 as an exempted company with limited liability under the Companies Law (2009 Revision as amended, supplemented or otherwise modified) of the Cayman Islands. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2015.

## 2 Basis of preparation

### 2.1 *Going concern*

During the year ended 31 December 2014, the Group reported a net loss of RMB307,104,000 and had a net cash outflow from operating activities of RMB55,398,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern.

The directors of the Company have assessed the appropriateness of adopting the going concern basis for the preparation of the consolidated financial statements for the year ended 31 December 2014. In order to improve the Group’s financial position, the directors of the Company have been implementing various measures as follows:

- (1) On 6 March 2015, the Group has obtained a short-term bank borrowing facility of RMB20,000,000 where the drawdown of borrowings under this facility will require approval from the bank;
- (2) the Group is taking active measures to control operating costs through various means, including streamlining the Group’s operational structure, adjusting management remuneration and containing administrative expenditures;
- (3) the Group is in on-going negotiations with key exclusive cooperative newspaper partners to reduce advertising costs;

- (4) the Group is maximising its efforts to liquidate its assets held for sales with a carrying amount of approximately RMB78,000,000; and
- (5) the Group is considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible notes.

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of not less than twelve months from 31 December 2014. The directors of the Company are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2014. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash inflows by successfully:

- (i) securing bank or other sources of financing;
- (ii) implementing the operational plans and measures to control costs; and
- (iii) generating and obtaining adequate cash flows from other sources.

Should the Group be unable to operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

## ***2.2 Changes in accounting policies and disclosures***

The consolidated financial statements of ShiFang Holding Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of the Group's consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Details of the critical accounting judgements and estimates applied to prepare the Group's consolidated financial statements are set out in the Group's consolidated financial statements to be included in the 2014 annual report.

The accounting policies and methods of computation used in preparing the consolidated financial statements of the Group as extracted from the Group's consolidated financial statements are consistent with those followed in preparing the annual financial statements of the Group for the year ended 31 December 2014, except for the adoption of the following amendments to standards and interpretation that are mandatory for the first time for the financial year beginning 1 January 2014 and did not have a material impact on the Group's consolidated financial statements:

Amendment to IAS 32	Financial Instruments: Presentation on Asset and Liability Offsetting
Amendment to IAS 36	Impairments of Assets — Recoverable Amount Disclosures for Non-financial Assets
Amendment to IAS 39	Financial Instruments: Recognition and Measurement
Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	Investment Entities
IFRIC-Int 21	Levies

The following new standards and amendments to standards which are not yet effective for the accounting year ended 31 December 2014 and which have not been adopted in these consolidated financial statements:

Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendment to IAS 19 (2011)	Defined Benefit Plans: Employee Contributions
Annual Improvement Project	Annual Improvements 2010-2012 Cycle
Annual Improvement Project	Annual Improvements 2011-2013 Cycle
Annual Improvement Project	Annual Improvements 2012-2014 Cycle
Amendment to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10 and IAS 28 (2011)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendment to IFRS 11	Accounting for Acquisitions of Interests in Joint operations
IFRS 9 (2014)	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers

The directors anticipate that the adoption of these new standards and amendments to standards will not result in a significant impact on the results and financial position of the Group.

### 3 Revenue

Revenue from external customers are derived from the provision of newspaper advertising services to advertisers in the PRC, online services, including electronic dissemination of publication and provision of online system development services to newspaper publishers, and the provision of marketing, distribution management, consulting and printing services, television and radio advertising, and outdoor advertising services and activities. The total sales amount of the Group's five largest customers is RMB26,712,000 for the year ended 31 December 2014 (2013: RMB69,858,000). An analysis of the Group's revenue for the year is as follows:

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Newspaper advertising	<b>134,469</b>	181,260
Online services	<b>338</b>	6,311
Marketing, distribution management, consulting and printing services, and outdoor advertising services and activities	<b>46,867</b>	77,709
Television and radio advertising	<b>1,882</b>	5,046
	<b><u>183,556</u></b>	<u>270,326</u>

### 4 Segment information

The Executive Directors have been identified as the chief operating decision-maker ("CODM"). Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The Executive Directors assess the performance of the Group's publishing and advertising businesses from both geographic and product perspectives. From a product perspective, management takes into consideration of the economic benefits of publishing and advertising businesses as a whole when executing a centralised assessment of the performance as the CODM considers they are mutually dependent and inseparable. Geographically, management considers the Group's publishing and advertising businesses activities are included in a single reportable segment in accordance with IFRS 8 "Operating segments". As such, no segment information is presented.

## 5 Interests in associates

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
At 1 January	59,993	60,162
Retained interest in a former subsidiary	345	–
Share of post-acquisition losses	(5,191)	(169)
Provision for impairment of interest in an associate (Note 11)	<u>(46,026)</u>	<u>–</u>
At 31 December	<u><b>9,121</b></u>	<u><b>59,993</b></u>

As at 31 December 2014, the carrying amount of the Group's interests in associates of RMB9,121,000 represented its 34% equity interest in Skybroad International Limited ("Skybroad") and its 30% interest in Beijing HanDing Advertisement Co., Limited ("Beijing HanDing").

The Group's interest in Skybroad includes a quasi-equity loan of RMB680,000 to Skybroad, which is unsecured and interest-free. Beijing HanDing, formerly a wholly-owned subsidiary of the Group, is recognised as an associate of the Group after the disposal of 70% equity interest in Beijing HanDing.

Skybroad and Beijing HanDing are private companies and there are no quoted market prices available for their shares. There are no contingent liabilities relating to the Group's interests in associates.

Interests in associates are reviewed for impairment whenever events or changes in circumstances indicate there may be diminution in the associates' value. In view of the decline in revenue due to competition from incumbent competitors and new entrants in the voice over internet protocol software industry, management has assessed the recoverable amount of the interest in Skybroad with the assistance of American Appraisal China Limited, an independent valuer, using the discounted cash flow method. Impairment provision totaling RMB46,026,000 was recognised as at 31 December 2014.

Set out below are details of the associates of the Group as at 31 December 2014 and 2013. They have share capitals consisting solely of ordinary shares, which are held directly by the Group; the country of their principal place of businesses is the PRC.

Name of entity	Country of incorporation	Nature of the relationship	Measurement method	% of ownership interest held as at 31 December	
				2014	2013
Skybroad	British Virgin Islands	Note 1	Equity	34.0	34.0
Beijing HanDing	The PRC	Note 2	Equity	30.0	100.0

*Note 1:* Skybroad provides voice over internet protocol (VoIP) based communication software known as Cloud Call that operates on mobile and personal computer platforms. Skybroad is a strategic partnership for the Group, providing access to the mobile advertising market.

*Note 2:* Beijing HanDing provides one stop advertising agency services. Beijing HanDing was a wholly-owned subsidiary of the Group before the Group's disposal of a 70% equity interest in the company on 24 December 2014.

## 6 Trade receivables – net

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables	<b>83,904</b>	226,364
<i>Less:</i> provision for impairment of trade receivables	<u><b>(38,411)</b></u>	<u>(179,040)</u>
Trade receivables – net	<u><b>45,493</b></u>	<u>47,324</u>

The payment terms with customers are mainly cash on delivery and on credit. The credit periods range from 30 days to 365 days after the end of the month in which the relevant sales occurred. Aging analysis of the Group's trade receivables based on invoice date was as follows:

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
1 – 30 days	<b>8,739</b>	17,543
31 – 60 days	<b>7,609</b>	8,170
61 – 90 days	<b>4,263</b>	5,535
91– 365 days	<b>40,159</b>	30,471
Over 1 year	<u><b>23,134</b></u>	<u>164,645</u>
	<b>83,904</b>	226,364
<i>Less:</i> provision for impairment of trade receivables	<u><b>(38,411)</b></u>	<u>(179,040)</u>
Trade receivables – net	<u><b>45,493</b></u>	<u>47,324</u>

As at 31 December 2014, trade receivables of RMB6,380,000 (2013: RMB7,926,000) were past due but not impaired. These receivables relate to a number of independent customers for whom there is no recent history of default and the repayment periods are consistent with the Group's practice.

As at 31 December 2014, trade receivables of RMB38,411,000 (2013: RMB179,040,000) were impaired and provided for. For the year ended 31 December 2014, the amounts of the provision charged to the consolidated statement of comprehensive income were RMB1,842,000 (2013: RMB78,671,000).

For the year ended 31 December 2014, no trade receivables were directly written-off to the consolidated statement of comprehensive income (2013: RMB11,154,000). For trade receivables written off, management has tried reasonable efforts to collect the trade receivables from those debtors and has determined that the recoverability of those balances is not probable.

## 7 Prepayments, deposits and other receivables

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Non-current portion</b>		
Prepayment for long term investments	173,000	173,000
Prepayment for acquisition of a property	6,694	–
Deposits to newspaper publishers	92,000	92,000
Deposits for marketing and promotion projects	–	16,250
	<u>271,694</u>	<u>281,250</u>
<i>Less: Provision for impairment (note (i))</i>	<u>(246,400)</u>	<u>(120,303)</u>
Prepayments, deposits and other receivables – net	<u><u>25,294</u></u>	<u><u>160,947</u></u>
<b>Current portion</b>		
Deposit for a marketing and promotion project	–	33,750
Prepayments for outdoor advertising projects	–	18,497
Prepayments to newspaper publishers and others	243,542	239,934
Deposits and other receivables	47,949	60,678
Receivable from Yueyang City Intermediate People's Court	22,000	22,000
	<u>313,491</u>	<u>374,859</u>
<i>Less: Provision for impairment (note (i))</i>	<u>(291,218)</u>	<u>(282,218)</u>
Prepayments, deposits and other receivables – net	<u><u>22,273</u></u>	<u><u>92,641</u></u>

(i) **Provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables**

Movements of carrying values before provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables as at 31 December 2014 were as follows:

	<b>Shenyang Evening News RMB'000</b>	<b>Outdoor advertising projects RMB'000</b>	<b>Yueyang City Intermediate People's Court RMB'000</b>	<b>Three metropolitan newspaper publishers RMB'000</b>	<b>Total RMB'000</b>
Long term investments	–	–	–	173,000	173,000
Long term deposits	–	–	–	92,000	92,000
Prepayments	33,780	18,498	–	201,501	253,779
Deposits and other receivables	10,000	–	22,000	23,937	55,937
	<u>–</u>	<u>(18,498)</u>	<u>–</u>	<u>–</u>	<u>(18,498)</u>
Less: disposal of subsidiaries	–	(18,498)	–	–	(18,498)
Balance as at 31 December 2014	<u>43,780</u>	<u>–</u>	<u>22,000</u>	<u>490,438</u>	<u>556,218</u>

As at 31 December 2014, provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables included provision for exclusive cooperative newspaper publishers of RMB471,838,000 (2013: RMB345,741,000), Shenyang Evening News of RMB43,780,000 (2013: RMB43,780,000), outdoor advertising projects of nil (2013: RMB13,000,000) and Yueyang City Intermediate People's Court of RMB22,000,000 (2013: nil). Movements of the provision for impairment were as follows:

	<b>Shenyang Evening News RMB'000</b>	<b>Outdoor advertising projects RMB'000</b>	<b>Yueyang City Intermediate People's Court RMB'000</b>	<b>Three metropolitan newspaper publishers RMB'000</b>	<b>Total RMB'000</b>
Balance as at 1 January 2014	43,780	13,000	–	345,741	402,521
Provision for impairment during the year	–	–	22,000	126,097	148,097
	<u>–</u>	<u>(13,000)</u>	<u>–</u>	<u>–</u>	<u>(13,000)</u>
Less: disposal of subsidiaries	–	(13,000)	–	–	(13,000)
Balance as at 31 December 2014	<u>43,780</u>	<u>–</u>	<u>22,000</u>	<u>471,838</u>	<u>537,618</u>

(a) *Shenyang Evening News*

As at 31 December 2012, deposit made to Shenyang Evening News pursuant to the exclusive advertising agreement between the Group and Shenyang Evening News was RMB10,000,000. The Group had also made prepayment of RMB33,780,000 to Shenyang Evening News under the terms of the exclusive advertising agreement. The exclusive advertising agreement between the Group and Shenyang Evening News was terminated on 26 July 2011. The directors considered the recoverability of the prepayment and probable outcome of the pending litigation with Shenyang Evening News, and determined full provision of these amounts for the year ended 31 December 2012.

(b) *Outdoor advertising projects*

Prepayments and impairment provision for outdoor advertising projects were disposed along with the disposal of subsidiaries by the Group on 24 December 2014. Previously, pursuant to exclusive agreements signed, commercial customers were contractually obligated to make delivery of certain advertising resources to the Group by the year ended 31 December 2013, of which they were unable to fulfill. The Group considered the legal advices from the Group's legal counsel and the probable utilisation of rental expenses for the operations of the outdoor advertising projects and made impairment provision for the aforementioned projects.

(c) *Yueyang City Intermediate People's Court*

On 17 February 2014 and on 28 April 2014, the Yueyang City Intermediate People's Court and Higher People's Court of Hunan Province respectively dismissed the appeal application by the Group against the enforcement orders issued by Yueyang City Intermediate People's Court. An appeal application was lodged to the Supreme People's Court to dismiss the above mentioned enforcement judgement and to refund the improperly drawn bank balances of RMB22,000,000 to the Group.

The directors considered the above developments, the amount drawn by Yueyang City Intermediate People's Court pursuant to the aforementioned enforcement orders and the probable outcome of the pending litigation and determined to make full provision for the amount of RMB22,000,000 for the year ended 31 December 2014.

(d) *Three metropolitan newspaper publishers*

As at 31 December 2014, prepayments, deposits and other receivables totaling RMB490,438,000 (2013: RMB490,438,000) were made by the Group to three metropolitan newspaper publishers, namely Southeast Express, Lifestyle Express, and Central Guizhou Morning Post. Pursuant to the exclusive cooperative agreements signed with these metropolitan newspaper publishers, the Group has to make initial deposits and periodic payments throughout the contract period in exchange for the exclusive advertising rights to sell advertising spaces of respective newspapers.

In view of the continuous decline in advertising revenue associated with the exclusive advertising rights over the years, the directors reviewed the Group's ability to recover the carrying amount of the prepayment for long term investments and deposits, current prepayments and receivables made to the metropolitan newspaper publishers and provided for an impairment provision of RMB471,838,000 (2013: RMB345,741,000) as at 31 December 2014.

## 8 Trade payables

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Trade payables	<b><u>5,889</u></b>	<u>6,653</u>

Payment terms granted by suppliers are mainly cash on delivery and on credit. The credit periods range from 30 days to 365 days after end of the month in which the relevant purchase occurred.

The aging analysis of the trade payables based on the invoice date was as follows:

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
1 – 30 days	<b>1,294</b>	2,533
31 – 90 days	<b>702</b>	769
Over 90 days	<b><u>3,893</u></b>	<u>3,351</u>
	<b><u>5,889</u></b>	<u>6,653</u>

## 9 Share capital

	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Authorised:					
Ordinary shares of HK\$0.1 each at					
31 December 2014 and 2013 ( <i>Note (a)</i> )	<u>2,000,000,000</u>	<u>0.1</u>			
Issued:					
Ordinary shares at 31 December 2013,					
1 January 2014, and 31 December 2014	<u>839,942,121</u>	<u>83,994,212</u>	<u>72,687</u>	<u>556,440</u>	<u>629,127</u>

*Note:*

- (a) The Company was incorporated in the Cayman Islands on 9 December 2009 with an authorised share capital of HK\$200 million divided into 2,000,000,000 shares of HK\$0.1 each. On the same date, the Company issued and allotted one share, credited as fully paid at par, to China TopReach Inc., the immediate holding company of the Company.

## 10 Other income and other (losses)/gains

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Other income:</b>		
Sale of newsprint papers	523	2,592
Sale of scrap material	135	487
Government grants ( <i>note a</i> )	2,127	269
Sundry income	493	346
	<u>3,278</u>	<u>3,694</u>
<b>Other gains:</b>		
Gain on disposal of subsidiaries	315	–
Gain on disposal of interest in Yunnan HanDing Investment ( <i>note b</i> )	–	33,664
	<u>315</u>	<u>33,664</u>
<b>Other losses:</b>		
Provision for legal claims	(17,329)	–
Provision for impairment of receivable from Yueyang City Intermediate People's Court ( <i>Note 7(i)</i> )	(22,000)	–
Provision for administrative foreign exchange penalty	(23,160)	–
	<u>(62,489)</u>	<u>–</u>

### Notes:

- (a) The Group recognised government grants of RMB2,127,000 (2013: RMB269,000) from the Fujian government authority for the year ended 31 December 2014 as an incentive for the Group to expand its business in the PRC.
- (b) On 8 May 2013, the Group disposed of its entire equity interest in Yunnan HanDing Investment and recognised a gain of RMB33,664,000 in connection with this disposal.

## 11 Expenses by nature

Loss before income tax is stated after charging the following:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cost of newspaper advertising		
– Media costs	95,208	147,393
Cost of marketing and promotion services	19,459	14,829
Cost of online services	165	3,629
Cost of television and radio advertising		
– Media costs	916	5,261
Cost of distribution management, consulting and printing services:		
– Raw material	9,822	12,350
– Media costs	4,304	7,155
– Other costs	1,293	823
Depreciation	10,170	9,762
Amortisation	3,228	16,557
Auditor's remuneration	4,759	4,647
Operating lease charges in respect of land and buildings	6,108	6,373
Net loss on disposal of property, plant and equipment	90	20
Provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables (Note 7(i))	126,097	358,741
Provision for impairment of trade receivables	1,042	75,708
Provision for impairment of interest in an associate (Note 6)	46,026	–
Provision for impairment of assets held for sale	1,828	–
Write-off of trade receivables	–	11,154
Write-off of prepayments and other receivables	–	12,988
Loss on disposal of assets held for sale	520	7,747
Net foreign exchange loss	35	310
Employee benefit expenses (including directors' emoluments)	73,347	78,459
Business tax	3,039	7,510
	<u><u>3,039</u></u>	<u><u>7,510</u></u>

## 12 Income tax expense

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Current income tax		
Mainland China enterprise income tax		
– Current tax	1,519	16,506
– Under/(over) provision in prior years	<u>3,481</u>	<u>(171)</u>
	5,000	16,335
Deferred income tax	<u>(682)</u>	<u>(2,620)</u>
	<u><b>4,318</b></u>	<u><b>13,715</b></u>

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the years ended 31 December 2014 and 2013.

Xiamen Duke was granted the qualification as a new and high-tech enterprise, and was entitled to the tax rate of 15% for year ended 31 December 2014 (2013: 15%).

## 13 Loss per share

### (a) Basic

Basic loss per share for the years ended 31 December 2014 and 2013 is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Loss attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>(304,174)</u>	<u>(516,834)</u>
Weighted average number of shares in issue ( <i>thousands</i> )	<u>839,942</u>	<u>839,942</u>
Basic loss per share ( <i>RMB per share</i> )	<u><b>(0.3621)</b></u>	<u><b>(0.6153)</b></u>

**(b) Diluted**

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2014, the Company's share options issued under the pre-IPO share option scheme were the sole category of dilutive potential ordinary shares where the effect of the assumed conversion of these potential ordinary shares outstanding during the year was anti-dilutive (2013: the same).

**14 Dividend**

No dividend has been declared by the Company since its incorporation.

**15 Subsequent events**

- (a) On 29 January 2015, the Group obtained a mortgage loan amounting to RMB15,470,000 to finance the Group's acquisition of a property situated in the first phase of Xiamen Software Park III. The mortgage term is 7 years with floating interest adjusted quarterly. The mortgage is secured by the aforementioned property.
  
- (b) On 6 March 2015, the Group obtained a short-term bank facility where the Group can draw borrowings of up to RMB20,000,000 under this facility and each drawdown will require approval from the bank. Each drawdown of the bank facility shall be secured by personal guarantee of Chen Zhi, executive director and CEO of the Group, and/or certain assets held by a wholly-owned subsidiary of the Group, at the discretion of the bank. Up to 26 March 2015, the bank facility is unutilised.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry review

In 2014, the Chinese government has implemented a series of fiscal policies and adjusted the Gross Domestic Product target rate for the year to accommodate for the over expanding economy. Over the past year, the advertising sector was under pressure as the slowdown in domestic economic growth and the continuous credit crunch had a direct impact on investment-oriented industries, such as property, which in turn, weakened consumption sentiment. According to the most recent statistics published by China Advertising Association and CVSC – TNS Research (“CTR”), it was noted that there was a negative growth in the domestic advertising market of traditional media and an enlarged fall in property advertising to 9.6% for 2014.

Traditional media advertising shrunk in 2014 primarily due to declining print media advertising and the negative growth of television (“TV”) advertising. Data showed that in 2014, print media advertising plunged further by 18.3%, and that of magazine fell by 10.2%, which was higher than that for 2013. Though the volume of TV advertisements only dropped slightly by 0.5%, it is evident that there is a shift in the overall dynamics of the traditional advertising industry.

The widespread use of the internet across various cities has facilitated new media development. As such, the internet and mobile platforms are the new advertising arenas supported by the enormous potential arising from the surge in the number of internet users.

As stated in the *Report on the Development of China’s Media Industry (2014)*, the emergence of new media platforms and the increasing speed of mobile connection in China have contributed to a growing usage of the internet during spare time. Driven by such favourable factors, spending on mobile-end video advertising is exhibiting a promising growth and an increasing proportion in the total advertising spending in the video market. The mobile-end video advertising market alone amounted to RMB1.43 billion for the third quarter of 2014, contributing 30.6% of the total video advertising market (2013: 20.6%), representing an increase of 10 percentage points.

As reflected by the figures, internet and mobile advertising are the main contributors to the rapid growth in the domestic media industry, and traditional media are hard hit amid sluggish economic growth in general. Traditional print media will experience greater pressure in securing advertisements, and the Group's newspaper advertising agency business, which is still the largest source of its revenue, will continue to be under great pressure and face market challenges.

## **Business review**

The slowdown in the Chinese economic development and the increasing pressure on certain industries to expand have impacted the advertising spending of the respective industries, thereby posing challenges for the operating environment of the Group in the year 2014. In view of the restructuring of the advertising market, the continuous switch to new media and the internet from print media as a platform of advertising, and the slow recovery in advertising spending of certain industries such as property, advertising revenue from newspaper advertising, online services and TV advertising dropped. For the year ended 31 December 2014, the Group recorded revenue from core businesses of approximately RMB183.6 million, representing a decline of 32.1% as compared to the previous year. Gross profit for 2014 was approximately RMB46.4 million, decreased by 38.9% as compared to the previous year. Gross profit margin was 25.3% (2013: 28.1%). Net loss after tax for the year amounted to approximately RMB307.1 million (2013: approximately RMB514.4 million). The performance of the Group's principal business, print media advertisements, was adversely affected due to the increasing threat from new online media and the receding Chinese economy. As a result, the Group generated a lower revenue and experienced a slower restructuring progress of some of its businesses, such as online media service, than what were originally projected by the Group.

In response to the increasing market challenges and the changing operating environment, the Group sought new revenue streams and implemented stringent cost controls by adjusting its business model and development approach, as well as identifying and centring on the direction of its future business development. The Group also streamlined its structure to achieve a better utilisation of its resources and curtail costs and expenses. During the year, the Group disposed of its controlling equity interest in its subsidiaries with no profit operations which included Olympia Media Holdings Limited (奧海傳媒集團有限公司), Gloria Fair Limited (漢鼎有限公司), Dailian ShiFang Media Co., Limited (大連十方傳媒有限公司), Shenyang ZhuQin ShiFang Media Development Co., Limited (瀋陽祝秦十方傳媒發展有限公司), Dongkuai (Fuzhou)Investment Consulting Services Co., Limited (東快(福州)投資諮詢服務有限公司), Chongqing ShiFang Culture Communication Co., Limited (重慶十方文化傳播有限公司), Fujian ShiFang Health Technology Co., Limited (福建十方健康科技有限公司), Fuzhou ShiFang Advertising Co., Limited (福建十方文化傳播有限公司), Shenyang Jinxiyuan Advertising Co., Limited (瀋陽金溪源廣告有限公司), Beijing HanDing Advertising Co., Limited (北京漢鼎廣告有限公司), Fuzhou HanDing Network Technology Co., Limited (福州漢鼎網絡科技有限公司), and Yunnan HanDing Technology Co., Limited (雲南漢鼎科技有限公司), so as to focus its resources on its core businesses, subsequently reducing the Group headquarter headcount from 100 to 37. In order to support the Group during its hardship, the management and executive personnel have agreed to take a pay cut of 25%-40%. The Group also restructured some of its independent divisions with a view to further centralising internal operation and better allocating jobs and resources. To ensure there were sufficient resources available for the development of core teams and major markets, a team of competent personnel with expertise in new technologies and new media were trained, and segments that are not in line with the Group's restructuring and strategic requirements have been scaled down. Investments have been made and reliable resource providers and business partners have been selected in a timely manner. In addition, having analysed and reviewed its existing operations and the prevailing market conditions, the Group has identified a business model and a market strategy that were appropriate for its market position and could bring in new streams of revenue. The Group further improved and refined its services and products based on the change in preferences of and interactions with its clients. The Group took advantage of its established clientele and resource base from its years of development in the print media market and accurately identified the trends of market segmentation and innovation in order to cement existing relationships and be ready to improve its operations and to grasp any market opportunities that may arise.

### ***Consolidating client base and expanding into new markets following business restructuring***

The Group strives to expand and diversify its client base of advertisers by providing tailored advertising and total marketing services for clients from various sectors such as property, finance, tourism, catering, lifestyle products, consumer products, 3C (computer, communication and consumer products), telecommunications, home appliance retailing, automotive, home construction materials, healthcare and medicine, education, and human resources.

Investment sentiment showed no signs of improvement in 2014 owing to the slowdown in overall economic growth in China and the continuous credit crunch in various industries including property. Under such circumstances, the Group's traditional advertising business was unavoidably affected as advertisers' budget for newspaper advertising decreased. Despite the considerable pressure on revenue and profit, the Group managed to maintain a stable clientele thanks to the operational resources accumulated and the strong relationship with clients established over the years. During the year under review, the Group focused on restructuring its business by consolidating operations that under-performed in terms of revenue growth with a goal of reserving resources for strategically developing business segments with promising growth potential.

New media and mobile internet have become the trend that steers the Group's future development, which will focus on expanding the clientele through enhancing services, and offering creative advertising solutions encompassing new technologies and new media. While the business restructuring is at a stage of adjustment and development, the Group believes that such initiative will be the basis for establishing a stable business growth in the long run and will contribute to the Group's future profitability.

## Newspaper advertising

Advertising in traditional print media has suffered a severe blow due to China's economic slowdown and the change in reading habits of youngsters caused by blossoming communication channels of new media and mobile internet. The overall volume of advertisements in Chinese publications continued to dwindle in 2014. Despite the Group's well-established clientele, the Group experienced a decline in both advertising spending and volume, resulting in a 25.8% fall in newspaper advertising revenue to RMB134.5 million, as well as a 3.9% decrease in gross profit to RMB37.3 million for the year ended 31 December 2014. Revenue from marketing and promotional services for 2014 was RMB26.1 million, down by 43.6% year-on-year. In spite of the drop in revenue, the newspaper advertising business remained one of the Group's principal businesses and accounted for approximately 73.3% of the Group's revenue from core businesses.

Facing the pressure and risk brought by new media and the internet, the Group has implemented stringent cost controls and actively sought new sources of income during the year under review in order to improve its operations. For the purpose of improving the organisational structure, restructuring was carried out at the management level and manpower was streamlined. Such efforts were proven effective as the Group's workforce was reduced from 854 to 805 during the year under review. On the other hand, the Group's staff received a substantial adjustment to salary, and the management and executive personnel, in particular, took a pay cut of 25%-40% as a vow to overcome challenges faced by the Group.

To cope with the downward trends in the domestic newspaper and magazine advertising industry, the Group further strengthened its comprehensive collaborative business model. During the year under review, the Group actively and effectively negotiated with some comprehensive collaborative media partners to adjust the cooperation arrangements. This was aimed that the Group could cease paying advertising costs of these comprehensive collaborative media partners in accordance with the minimum guaranteed payment commitment under the original comprehensive collaborative contracts. Under the new model, the Group will bear the newspaper printing costs, newsprint paper costs, and distribution costs of its partners, while enjoying advertising and circulation income from those operations. As of 31 December 2014, the Group had seven media partners, including *Southeast Express*, *Lifestyle Express*, *Modern Life Daily*, *Central Guizhou Morning Post*, *Xiamen Evening News*, *City Lifestyle Weekly*, and a magazine, *TV Friends*. The Group's operations span more than six second- and third-tier cities across five provinces in China.

On the other hand, Shenyang Media Corporation unilaterally terminated its cooperation contract with the Group on 26 July 2011, and this has had an impact on the Group's business. On 5 May 2014, the Group received a civil judgement issued by the Shenyang Intermediate People's Court in Liaoning Province in respect of the legal proceedings with Shenyang Media Corporation. Liaoning Aohai, a subsidiary of the Group, was ordered to pay Shenyang Media Corporation advertising agency fees in the sum of RMB17,250,398 within ten days after the judgement becomes effective. The Group had sought legal advice from its PRC legal counsel and had made an appeal to the Higher People's Court in a timely manner. Such appeal was subsequently dismissed on 26 November 2014. Having sought further legal advice from the PRC legal counsel, the Group decided to file an application for retrial to the Supreme People's Court against the judgement. Further developments of this case will be disclosed as and when appropriate.

### **Online services**

Mobile internet has been on the rise in terms of user coverage and has become a key source of information for the public in recent years. The Group believes that the mobile network and the internet present enormous business opportunities and will be the key growth drivers of the advertising industry in the future. To tap into the huge market demand from such trend, the Group continually refines its business structure, and recovers resources from less profitable segments and diverts them to our online services so as to achieve business transformation by fusing its technologies in both traditional and new media businesses, and in 2014, such projects were still in the investment stage. The Group targets to increase the share of mobile internet business in our total revenue to 50%. The Group's online services continue to consist mainly of Cloud Call technology, Duk, DNKB, Life News and Fangke Web. The Group has further established its new internet media platforms with technologies and channels that complement the traditional media in terms of resources and technological standards so as to realise the fusion of online and offline businesses.

For the year under review, our premature internet media platforms were still in the establishment and investment stages, while the competition in the online services and digital media industry intensified. As a result, the performance of the online services business fell short of expectation in 2014 with revenue of RMB0.3 million, representing a decrease of 95.2% as compared to last year. Gross profit was RMB0.2 million, down by 92.0% as compared to last year. However, the Group has high hopes for the development of its online media and will continue to put a lot of efforts into the establishment of comprehensive multi-media platforms to achieve business transformation, shift its business focus to mobile internet operations, expand its market share and increase its income in the long run.

During the year under review, Duk, which is owned by the Group, had online cooperative publishing rights with over 300 publishers, 860 magazine publishers and 5,000 magazines, as well as digital cooperative publishing rights with 17 metropolitan daily, evening, and commercial newspapers, thereby becoming one of the largest digital media publishing platforms in China. Duk mainly generated its income from three sections, namely online advertisement, paid subscriptions and e-magazine publishing. The Group maintained paid subscriptions and a profit-sharing system with licensors and witnessed an increase in active website members. The Group will continue to foster the online services operation and seize additional market share. For e-magazine publishing, the Group will carry on strengthening its technical support capabilities and speeding up the restructuring of the service team in order to keep up with the rapidly-developing mobile internet market.

As part of the restructuring process, the Group has sped up launches of new and integrated versions of Duk, which will become an essential part of the internet cloud platform for the Group. By cooperating with third-party digital platforms, the Group aims to establish marketing channels for institutional users. Duk will also enhance the features of its information and servicing web pages, and will promote the concept of city directories to improve the market penetration of its clients' advertisements. Duk will develop a one-on-one service and marketing model for advertisers with its key events and promotional spaces. To strengthen its ties with advertisers, Duk will make marketing effectiveness its top priority. Furthermore, it will offer more highly readable leisure and entertainment contents to raise its value and reader loyalty. Duk will undergo a three to four months long revamp in order to establish and enlarge a stable readership base.

The Group has also actively upgraded the technological capabilities of its existing products in adherence to the latest market development. DNKB has already launched its own mobile application, which has been tested online, with promising results in the number of advertisers and operating revenue. With a clearer separation of the healthcare, travel, automobile and property sections, the links will be more user-friendly and will greatly enhance the value of DNKB, and will encourage interaction with publishers, netizens and readers. In addition, DNKB has successfully rolled out a new marketing model with graphics, stories and videos tailored for events such as car shows.

Advertising in new media via mobile devices and the internet is developing swiftly. In order to expand its existing advertising business and to share the results of the booming development, in August 2012, the Group completed the acquisition of 34% of the issued shares in the Voice over Internet Protocol (VoIP) based communications software known as “Cloud Call” (“Cloud Call/Cloud Call App”) for mobile devices and personal computers. The main feature of the system is to allow users to use 3G, wireless networks or the internet for fixed line or mobile phone calls to China and Hong Kong from China and around the world without paying roaming or long distance telephone charges. With defined target users and outstanding features, Cloud Call is competing for market recognition, penetrating the market and generating revenue for the Group. The Group has completed the development of the Cloud Call platform and perfected the relevant systems in 2014. However, the operating revenue of Cloud Call has yet to reach the targeted economic results as the development has been hampered by the increasing market competition resulted from the remarkable growth of other mobile service operators. To counter such difficulties, the Group has actively expanded its membership base by rolling out free downloads of Cloud Call, thereby boosting the number of registered members to over 8 million and the number of address book entries uploaded to over 400 million. In view of the bright prospects of the development of Cloud Call, the Group will continue with the relevant technological upgrade so as to tap into the enormous market potential.

Fangke Web ([www.fangke.cc](http://www.fangke.cc)) operated by Fujian Fangke Network Technology Corporation Limited, a non wholly-owned subsidiary of the Group, remained one of the development focuses of the Group’s online business. Being an advocate and forerunner of new business marketing models for the property industry, Fangke Web has been focusing on resource integration, brand-building, and research and development of electronic business platforms for the property sector. It offers comprehensive industry information, integrated marketing services, and business applications to players in the property sector. Key features of Fangke Web include a property information portal, an online property selling system, an online agency system, an agency software named “Agency Finder” and management software for property selling.

In terms of online services and mobile network, the Group has built up a strong and comprehensive hi-tech product portfolio with continuous business integration and technological developments. The Group has developed several user-end applications and separate products, collected and classified numerous databases, rolled out practical products, developed an integrated servicing, sale and turnkey business model based on the original print media sales system. The Group has also established the necessary technological and product support for the development of ShiFang’s cloud computing platform.

## **Marketing, distribution management, consulting and printing services**

Due to the relatively narrow client base of the Group's marketing, distribution management, consulting and printing services and the impact of the emerging new media on the paper-based media, revenue from this segment for the year under review fell by 39.6% to RMB46.9 million, accounting for 25.5% of the Group's total revenue.

The Group has entered into exclusive cooperation contracts with some of its newspaper partners for the sale of advertising space and the provision of integrated services. The Group is committed to maintaining close relationships with its newspaper partners by offering certain additional services, such as printing, distribution management, consulting and marketing advice, helping publications maintain their excellent printing quality, and increasing revenue from the provision of integrated print media services to advertisers. In relation to distribution and management services, the Group continued to provide comprehensive services for *Southeast Express* and *Lifestyle Express*.

In terms of printing services, the Group's three factories located in Fuzhou, Kunming and Guizhou operated smoothly and printed *Southeast Express*, *Lifestyle Express* and *Central Guizhou Morning Post*, respectively. In addition to the printing of *Southeast Express*, the Fuzhou factory also continued to print *China Securities Journal* and *Shanghai Securities News* which offered higher overall profit margins. With its persistent and stringent quality control on the printing of its publications, the Group was able to maintain strategic and close cooperative relationships with its media partners. Due to the close tie between our printing services and the circulation of our key newspaper clients, the recent fall in newspaper subscribers affected the printing services to a certain extent and had a negative impact on the revenue from newspaper printing service.

In addition, by leveraging its own resources and the established technologies developed by Fangke Web, the Group continued to deepen its cooperation with clients by offering professional marketing and planning solutions along with its property marketing planning services. Even though property sales dipped during the period due to the macro-control measures of the Chinese government and the general slowdown in the Chinese economic growth, our business in this aspect maintained its momentum and is expected to stay profitable in the future.

During the year, the Group disposed of Fujian ShiFang Health Technology Co., Limited so as to further streamline its structure and divert its resources to other businesses with better potential.

## **Television and radio advertising**

The Group's television and radio advertising revenue in 2014 amounted to RMB1.9 million, a year-on-year decrease of 62.0%, accounting for 1.0% of the Group's total revenue. The further decrease in proportion reflected the Group's future strategy of lowering reliance on traditional media, including television and radio, advertising and focusing more on the mobile internet business.

The Group's television advertising business mainly operates as an extended and supplementary service to newspaper partners as a way for them to extend their coverages to a medium beyond newspaper. This business principally offers diversified television advertising solutions to the Group's property and automobile clients. During the year under review, the Group maintained an amicable cooperative relationship with Nanning Television Station in Guangxi Province for the broadcasting of advertisements for home-improvement and building material companies during advertising time slots on four of the station's channels. The Group is also actively exploring opportunities for cooperation with other television stations in order to expand this business. The Group will strive to establish relationships with such stations similar to our comprehensive or partial collaborative partnership with newspapers, thus further expanding the sources of income from the television advertising business and eventually establishing the Group as a major television media operator and a media resource provider.

## **FINANCIAL REVIEW**

### **Revenue**

Total revenue decreased significantly by 32.1% from RMB270.3 million for the year ended 31 December 2013 to RMB183.6 million for the year ended 31 December 2014, primarily due to the proliferation of online new media, as well as the change in clients' advertising strategy and the restructuring of the advertising market. Revenue from newspaper advertising decreased from RMB181.3 million for the year ended 31 December 2013 to RMB134.5 million for the year ended 31 December 2014 and revenue from marketing, distribution management, consulting and printing services decreased from RMB77.7 million to RMB46.9 million for the year ended 31 December 2014.

### **Gross profit and gross profit margin**

Gross profit decreased by 38.9% from RMB76.0 million for the year ended 31 December 2013 to RMB46.4 million for the year ended 31 December 2014. Gross profit margin decreased from 28.1% for 2013 to 25.3% for 2014, which was primarily attributable to the unsatisfactory performance of newspaper advertising and marketing, distribution management, consulting and printing services.

### **Other income**

Other income decreased by 10.8% from RMB3.7 million for the year ended 31 December 2013 to RMB3.3 million for the year ended 31 December 2014, primarily due to the decrease in the income from sale of newsprint papers.

### **Other (losses)/gains – net**

Net other losses amounted to RMB62.2 million for the year ended 31 December 2014 was mainly due to provision for legal claims related to lawsuit between the Group and Shenyang Media Corporation, provision for impairment of receivable from Yueyang City Intermediate People's Court and provision for administrative foreign exchange penalty imposed by Fujian Province Branch of the State Administration of Foreign Exchange.

### **Selling and marketing expenses**

Selling and marketing expenses decreased by 8.7% from RMB32.3 million for the year ended 31 December 2013 to RMB29.5 million for the year ended 31 December 2014, mainly due to decline in marketing expenses incurred by the Group corresponding to decline in revenue during the year.

### **General and administrative expenses**

General and administrative expenses decreased by 61.8% from RMB221.5 million for the year ended 31 December 2013 to RMB84.6 million for the year ended 31 December 2014, mainly due to a decrease in provision for impairment of trade receivables and amortisation charge on intangible assets.

### **Provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables**

Provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables decreased significantly by 64.8% from RMB358.7 million for the year ended 31 December 2013 to RMB126.1 million for the year ended 31 December 2014, mainly because of the decrease in provision for impairment of long term investments, long term deposits, prepayments, and deposits and other receivables from two metropolitan newspaper publishers. Provisions made during the year is due to further declines in advertising revenue associated with the exclusive advertising rights from two metropolitan newspaper publishers.

### **Loss before income tax**

As a result of the above factors, loss before income tax for the year ended 31 December 2014 was RMB302.8 million, representing a drop of 39.5% as compared to loss before income tax of RMB500.7 million for the year ended 31 December 2013.

### **Income tax expense**

Income tax expense decreased by 68.6% from RMB13.7 million for the year ended 31 December 2013 to RMB4.3 million for the year ended 31 December 2014 as a result of the decrease in taxable income for the year.

### **Loss for the year**

The Group recorded a net loss for the year of RMB307.1 million for the year ended 31 December 2014, mainly attributable to the significant decline in newspaper advertising revenue and the provision for impairment of long term investments, long term deposits, prepayments and deposits and other receivables and provision for impairment of interest in an associate.

### **(Loss)/profit attributable to non-controlling interests**

As a result of the above factors, profit attributable to non-controlling interests decreased from RMB2.4 million for the year ended 31 December 2013 to a loss of RMB2.9 million for the year ended 31 December 2014.

### **Loss attributable to equity holders of the Company**

As a result of the above factors, loss attributable to equity holders of the Company decreased from RMB516.8 million for the year ended 31 December 2013 to a loss of RMB304.2 million for the year ended 31 December 2014.

## Liquidity and capital resources

The Group's management monitors current and expected liquidity requirements regularly to ensure the Group has sufficient working capital to meet its future obligations as and when they fall due. During the year ended 31 December 2014, the Group recorded a net loss of RMB307.1 million and a net cash outflow of RMB21.4 million. The management closely monitors the Group's liquidity position and is implementing measures to improve the Group's cash flow.

	Year ended 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	<b>(55,398)</b>	(71,248)
Net cash generated from investing activities	<b>33,274</b>	202,122
Net cash generated from/(used in) financing activities	<b>700</b>	(130,398)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	<b>(21,424)</b>	476
Cash and cash equivalents at the beginning of the year	<b>53,911</b>	53,435
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<b>32,487</b>	53,911
	<hr/> <hr/>	<hr/> <hr/>

### Cash flows used in operating activities

For the year ended 31 December 2014, net cash used in operating activities amounted to RMB55.4 million, primarily attributable to the net loss for the year amounted to RMB307.1 million.

### Cash flows generated from investing activities

For the year ended 31 December 2014, net cash generated from investing activities amounted to RMB33.3 million, mainly due to the release of term deposits with initial terms of over three months.

## Cash flows generated from financing activities

For the year ended 31 December 2014, net cash generated from financing activities amounted to RMB0.7 million, solely attributable to capital contributions from non-controlling interest shareholders.

## Capital expenditures

The Group's business generally does not require significant ongoing capital expenditures. Capital expenditures incurred are mainly for the purchase of printing machinery and office equipment. Capital expenditures were RMB5.3 million and RMB1.7 million for the years ended 31 December 2013 and 31 December 2014, respectively.

## Trade receivables – net

The following table sets out the aging analysis of the Group's trade receivables at the dates indicated:

	As at 31 December	
	2014	2013
Aging analysis of trade receivables	<i>RMB'000</i>	<i>RMB'000</i>
1 – 30 days	8,739	17,543
31 – 60 days	7,609	8,170
61 – 90 days	4,263	5,535
91 – 365 days	40,159	30,471
Over 1 year	<u>23,134</u>	<u>164,645</u>
Total	83,904	226,364
Less: provision for impairment of trade receivables	<u>(38,411)</u>	<u>(179,040)</u>
Total trade receivables – net	<u><b>45,493</b></u>	<u>47,324</u>

Trade receivables decreased by 3.8% from RMB47.3 million as at 31 December 2013 to RMB45.5 million as at 31 December 2014. Such decrease was mainly attributable to the decrease in revenue from newspaper advertising. Trade receivables turnover days has decreased from 171 days for the year ended 31 December 2013 to 90 days for the year ended 31 December 2014.

### Assets held for sale

The properties for which the Group is given the contractual right to sell under these arrangements are held under the line item “assets held for sale”.

	As at 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Assets held for sale	<b>78,191</b>	<b>27,492</b>

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The amount of proceeds received from the sales of assets held for sale was RMB5.6 million and RMB1.2 million for the year ended 31 December 2013 and 31 December 2014, respectively.

### Trade payables

	As at 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables		
1 – 30 days	<b>1,294</b>	2,533
31 – 90 days	<b>702</b>	769
Over 90 days	<b>3,893</b>	3,351
Total	<b>5,889</b>	<b>6,653</b>

Trade payables decreased by 11.9% from RMB6.7 million as at 31 December 2013 to RMB5.9 million as at 31 December 2014. Trade payables turnover days increased from 50 days for the year ended 31 December 2013 to 66 days for the year ended 31 December 2014, which was mainly due to lengthening of settlement periods of payable balances for the year ended 31 December 2014.

## Indebtedness

Indebtedness consists of obligations to lenders, including commercial banks and certain related parties and companies.

No borrowings were recorded as at 31 December 2014 and 2013. On 6 March 2015, the Group has obtained a bank facility where the Group can draw borrowings of up to RMB20,000,000 under this facility and each drawdown will require approval from the bank.

Gearing ratio remained unchanged at 0% since 31 December 2013.

## Commitments

### (a) *Commitment for exclusive cooperative agreements*

The future aggregate minimum advertising payments under non-cancellable exclusive cooperative agreements are as follows:

	As at 31 December	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than 1 year	63,800	119,910
Later than 1 year and not later than 5 years	227,000	259,240
Later than 5 years	795,000	891,040
	<u>1,085,800</u>	<u>1,270,190</u>

### (b) *Other capital commitments*

On 13 June 2014, the Group has entered into an agreement with Xiamen Information Group Ltd. for the purchase of level 23 and 24 of the research and development building no. A01 situated in the first phase of Xiamen Software Park III for a total consideration of RMB22,164,000. The Group has made a deposit of RMB6,694,000 on 16 June 2014 and has obtained a 7 year mortgage loan on 29 January 2015 in connection with the remaining payment amounting to RMB15,470,000.

## Contingent liabilities

The Group follows the guidance of IAS37 “Provisions, Contingent Liabilities and Contingent Assets” to determine when should contingent liabilities be recognised, which requires significant judgement.

A contingent liability will be disclosed when a possible obligation has arisen, but its existence has to be confirmed by future events outside the Group's control, or when it is not possible to calculate the amount. Realisation of any contingent liabilities not currently recognised or disclosed could have a material impact on the Group's financial position.

The Group reviews significant outstanding litigations in order to assess the need for provisions. Among the factors considered are the nature of the litigation, legal processes and potential level of damages, the opinions and views of the legal counsel, and the management's intentions to respond to the litigations. To the extent the estimates and judgements do not reflect the actual outcome, this could materially affect the results for the year end and the financial position.

**(a) Fine Imposed by Fujian Province Branch of the State Administration of Foreign Exchange**

On 15 April 2014, a subsidiary of the Group received a letter of administrative penalty notice (Min Hui Gao No. [2014] 2 (閩匯告[2014]2號)) issued by Fujian Province Branch of the State Administration of Foreign Exchange to impose a fine of RMB11,580,000 on that subsidiary in relation to certain of its foreign exchange settlement transactions.

On 21 April 2014, the subsidiary applied for a hearing which was subsequently accepted by Fujian Province Branch of the State Administration of Foreign Exchange on 25 April 2014.

On 14 July 2014, the subsidiary received the opinion of hearing (聽證意見書[2014]1號) issued by the Fujian Province Branch of the State Administration of Foreign Exchange. The hearing officers advised Fujian Province Branch of the State Administration of Foreign Exchange to maintain the proposed fine as stated on the letter of administrative penalty notice (Min Hui Gao No. [2014] 2 (閩匯告[2014]2號)).

On 21 July 2014, the subsidiary received a letter of administrative penalty decision (Min Hui Fa No. [2014] 5 (閩匯罰[2014]5號)) issued by Fujian Province Branch of the State Administration of Foreign Exchange to impose a fine of RMB11,580,000.

The subsidiary shall remit the fine of RMB11,580,000 to a designated account for fines and penalties within 15 days from the date of receiving the letter of administrative penalty decision. In the event of non-payment of fine when overdue, Fujian Province Branch of the State Administration of Foreign Exchange shall impose an additional daily penalty of 3% on the amount of such, or apply to the People's Court for enforcement. Accrued additional daily penalties shall not exceed the original fine of RMB11,580,000.

The subsidiary has applied to the State Administration of Foreign Exchange for an administrative review. On 3 November 2014, the State Administration of Foreign Exchange issued a letter of administrative reconsideration decision (Hui Fa No. [2014] 45 匯發[2014]45號) to the subsidiary, stating the letter of administrative penalty decision (Hui Fa No. [2014] 5) dated 21 July 2014 will be upheld and the said enforcement order will not be suspended during the period of the administrative review.

On 20 November 2014, the subsidiary brought an administrative lawsuit to the Fuzhou City GuLou District People's Court ("Fuzhou People's Court") and is awaiting the judgement of the court.

Notwithstanding the lawsuit that was brought to Fuzhou People's Court, the management has made a provision of RMB23,160,000 in respect of the penalty charge and daily penalty charges, which has been included in the statement of comprehensive income.

To facilitate the streamlining of the Group's structure, the aforementioned subsidiary was disposed to an independent third party of the Group, on 24 December 2014.

#### **(b) Lawsuits between the Group and Shenyang Media Corporation**

On 26 July 2011, Shenyang Media Corporation unilaterally terminated the Comprehensive Cooperation Contract with the Group.

A subsidiary of the Group received a summons issued by the Shenyang Intermediate People's Court in Liaoning Province (the "Shenyang Intermediate People's Court") on 25 October 2011, where Shenyang Media Corporation claimed the subsidiary for, among others, a total sum of RMB17,328,767 being the outstanding advertising fees payable by the subsidiary to Shenyang Media Corporation (the "Case 1").

On 22 December 2011, the subsidiary filed summons of claim to the Higher People's Court of Liaoning Province (the "Higher People's Court") against Shenyang Daily Agency and Shenyang Evening News Media Corporation, where the Group sued Shenyang Daily Agency and Shenyang Media Corporation for, among others, a total sum of RMB105,579,352, being the outstanding advertising fees payable by Shenyang Daily Agency and Shenyang Media Corporation (the "Case 2") to the subsidiary.

On 8 March 2012, the subsidiary received a civil judgement issued by the Higher People's Court in relation to Case 2, pursuant to which the Higher People's Court decided to refer the case back to the Shenyang Intermediate People's Court. As advised by the PRC legal counsel, the subsidiary has lodged an appeal to the Supreme People's Court of the PRC (the "Supreme People's Court") on 13 March 2012 to request the Supreme People's Court to overrule the Higher People's Court's decision.

On 30 August 2012, the subsidiary received a judgement of first instance awarded by the Shenyang Intermediate People's Court in relation to Case 1. It was ruled that the subsidiary shall pay Shenyang Media Corporation RMB17,250,398 as advertising fees together with court fees within 10 days after the judgement becomes effective. On 6 September 2012, the subsidiary has lodged an appeal to the Higher People's Court to seek to revoke the judgement of first instance in due course.

On 27 December 2012, Higher People's Court ordered the judgement of first instance issued by the Shenyang Intermediate People's Court on 30 August 2012 be dismissed and a retrial of the case at the Shenyang Intermediate People's Court was ruled ("Case 1"). On 25 June 2013, the Shenyang Intermediate People's Court commenced the retrial of the case.

On 5 December 2013, a civil judgement was issued by the Supreme People's Court in relation to Case 2. It was ruled that the civil judgement dated 8 March 2012 by the Higher People's Court be dismissed, and that the case be handled by the Higher People's Court.

On 5 May 2014, a civil judgement was issued by Shenyang Intermediate People's Court. It was ruled the subsidiary shall pay Shenyang Media Corporation the advertising agency fee of RMB17,250,398. As advised by PRC legal counsel, the subsidiary has filed an appeal against the civil judgement to the Higher People's Court.

On 15 October 2014, the hearing at the Higher People's Court commenced for Case 2. After seeking legal consultation, the management believes that it is not probable that this litigation would result in any material outflow of economic benefits from the Group.

On 4 December 2014, the subsidiary received a civil judgement of (2014) Liao Min Er Zhong Zi no. 00170 ((2014) 遼民二終字第00170號) dated 26 November 2014 issued by the Higher People's Court which dismissed the appeal by the subsidiary to uphold the original judgement made by the Intermediate People's Court for Case 1, which ordered the subsidiary to pay to Shenyang Media Corporation advertising agency fees in the sum of RMB17,250,398. The judgement was the final judgement of the Higher People's Court and an enforcement order was placed to freeze the bank balances of Liaoning Aohai amounting to RMB1,797,906. Maximum value of the freezing order is RMB17,250,398. As advised by the PRC legal counsel, the subsidiary filed an application for retrial to the Supreme People's Court on 30 December 2014.

Notwithstanding that an application for retrial was lodged to the Supreme People's Court, management has made provision of RMB17,250,398 in respect of the advertising agency fee, which has been included in the consolidated statement of comprehensive income. With reference to legal opinion, management believes economic outflow arising from the litigation is limited to Liaoning Aohai, and the litigation would not result in material outflow of economic benefits from other subsidiaries of the Group.

The Group is currently waiting for further instructions from the court and will notify the shareholders of any progress in the litigations in a timely manner.

**(c) Enforcement order issued by Yueyang City Intermediate People's Court against certain wholly-owned Group subsidiaries**

On 4 June 2012, Yueyanglin Paper Co., Ltd. has filed a civil claim against Southeast Express and Lifestyle Express in respect of an outstanding payment of RMB31,859,018 relating to certain sales made in prior years.

On 10 July 2012, Yueyang Intermediate People's Court has made a civil judgement that Southeast Express and Lifestyle Express shall pay Yueyanglin Paper Co., Ltd. the aforesaid amount.

On 26 October 2012, the Yueyang Intermediate People’s Court ruled that in view of intentional transfer of assets among Southeast Express, Lifestyle Express, and certain wholly-owned Group subsidiaries, the court froze the bank balances of the aforementioned subsidiaries, which included Fuzhou Aohai Advertisement Co., Ltd. (“Fuzhou AoHai”) and Kunming AoHai Advertising Co., Ltd. (“Kunming AoHai”), up to a maximum value of RMB31,859,018 (“Freezing Order”).

On 8 November 2012, the subsidiaries appealed to the Yueyang Intermediate People’s Court against the Freezing Order. The Freezing Order was revoked on 30 January 2013. Yueyanglin Paper Co., Ltd. has subsequently lodged an appeal to the Higher People’s Court of Hunan Province against this decision, but on 22 August 2013, the Higher People’s Court of Hunan Province dismissed the appeal application by Yueyanglin Paper Co., Ltd.

However, Yueyang Intermediate People’s Court issued two enforcement judgements in favour of Yueyanglin Paper Co., Ltd. on 22 September 2013. The court ruled to draw the cash deposit of RMB22,000,000 out of the bank accounts of Fuzhou AoHai and to freeze advertising fee of up to RMB14,000,000 expected to be paid by Fuzhou AoHai and Kunming AoHai to Southeast Express and Lifestyle Express. The subsidiaries have subsequently raised an objection to the enforcement judgement to the Yueyang Intermediate People’s Court against the court’s decision together with other economic losses and damages on the reputation of the subsidiaries.

On 17 February 2014, the Yueyang Intermediate People’s Court dismissed the objection application by the subsidiaries. As advised by the PRC legal counsel, the subsidiaries have lodged a review application to the Higher People’s Court of Hunan Province (the “Higher People’s Court”) against the implementation of the above-mentioned decision of the Yueyang Intermediate People’s Court. The application is lodged to the Higher People’s Court to dismiss the above-mentioned enforcement judgements and return the improperly drawn bank balances of RMB22,000,000 to the subsidiaries.

On 28 April 2014, the Higher People's Court of Hunan Province dismissed the implementation review application by the subsidiaries. As advised by the PRC legal counsel, an application for execution monitoring was lodged to the Supreme People's Court to dismiss the above-mentioned enforcement judgements and refund the improperly drawn bank balances of RMB22,000,000 to the subsidiaries. The case is currently being examined by the court and is pending judgement.

Taking into account of the latest developments of the case, the directors considered to recognise full impairment provision of RMB22,000,000 in respect of this legal claim, which has been included in the consolidated financial statements.

## **Human resources**

As at 31 December 2014, the Group had approximately 805 full-time employees. Total staff costs including directors' remuneration for the year ended 31 December 2014 was approximately RMB73.3 million (2013: approximately RMB78.5 million). The Group offers competitive remuneration packages to employees that include salaries, bonuses and share options to qualified employees.

The remuneration of the directors are evaluated by the remuneration committee and the committee makes recommendations to the Board. In addition, the remuneration committee conducts reviews of the performance, and determines the remuneration structure, of the Group's senior management.

The Company operates an employee share option scheme and the purpose of which is to provide incentive or reward to eligible persons who provide services to the Company for their contribution and continuing efforts to promote the interests of the Company, and for such other purposes as the Board may approve from time to time.

## **Prospects**

Looking forward to 2015, the Chinese government has set its target of economic growth, the maximum consumer price index increase and 2015 M2 Money Supply expansion at around 7%, 3% and 12%, respectively. 2015 marks both the harvest year of the Twelfth Five-Year Plan and the planning stage of the Thirteenth Five-Year Plan and the economic and social development beyond. Throughout the Twelfth Five-Year Plan period, China has achieved substantial progress in its reform and development notwithstanding the continuance of the Global Financial Crisis, a monumental transformation in the domestic economy and the change in leadership. The Group remains cautiously optimistic about the future. In respect of the traditional media advertising market, the substantial slowdown in the traditional media business during the year signified that the transformation of media has come to a critical point. The boundary between new and traditional media was blurred and the traditional media needs new formats and positions through transformation. Against the backdrop of the accelerating economic restructuring and increasing government support for and guidance on the integration of the internet, new media, traditional media and social networks, the Group will reposition and reform itself, and redeploy its resources so as to shift its strategic focus to marketing and expanding the customer base of its new media platform as well as from providing marketing service to traditional media to new media.

The Group is equipped with abundant marketing resources and a well-established customer base together with a professional management team with ample experience, and a technical team with strong technical capability and competitive products. As such, the Group will speed up the integration of its traditional media platform and new online technologies in order to establish an integrated platform business model which is more comprehensive and has more and wider audience.

Having laid a solid foundation, the Group is on its way to a successful transformation. For 2015, our key task will be to quickly establish a number of media platforms based on its print media resources and new mobile and internet technologies. The foundation works of these platforms, such as the establishment of Cloud Call and news and information platforms, are substantially completed. The Group aims at rolling out new products and services in April 2015 so as to set the direction of the Company's transformation. In addition, we will continue to shut down businesses with relatively unsatisfactory profitability and poor revenue so as to divert their resources to other platforms that have the potential to cement and fit with the market's needs and integrate them with new technologies so as to accelerate the launch of new products. In the next three years, the Group targets to increase the share of mobile and internet business in our total revenue to 50% while reducing the share of print media to 50% so as to form a balanced online and offline marketing service structure.

Furthermore, the Group's efforts in controlling costs and improving operating efficiency are producing positive results. Capitalising on our all-round strengths such as existing brand equity and customer base, multi-regional geographical coverage and cross-media platforms, the Group has an edge in its transformation and development. Though the road of transformation may seem long and tough, it is our only way to fit into the new operating environment.

In the long run, the macro-economic condition in China will be promising, the consumption power of the Chinese population as a whole will rise, and the domestic internet technology will mature. These trends will be conducive to the Group's growth. Moreover, it was stated in the work report of the government delivered at the third session of the twelfth National People's Congress that the government will seek and rapidly develop new sources of consumption growth, expand cultural spending, nurture the newspaper, publishing, radio, film and television industries, and foster the integration of traditional and new media, which will greatly benefit the Group. In fact, the relevant permits and licences issued by government authorities to the Group give us an initial lead in terms of resources. Looking ahead, the Group will insist on strengthening ShiFang's comprehensive advertising network and realising a general transformation, and focus on resuming the stable overall business growth. Through actively procuring transformation and development, the Group will spare no efforts to create long-term value for the Shareholders amidst severe competition.

## **DIVIDEND**

The Board does not recommend payment of any dividend for the year ended 31 December 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 19 May 2015 to 21 May 2015, both days inclusive, during which no transfer of shares will be registered. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 18 May 2015.

## **CORPORATE GOVERNANCE CODE**

The Company recognises the importance and value of achieving high standards of corporate governance practices. The Board believes that good corporate governance is an essential element in maintaining and promoting shareholder value and investor confidence.

The Company has adopted the principles and complied with the former and revised Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance since the date of the listing of the shares of the Company on the Main Board of the Stock Exchange on 3 December 2010 (the "**Listing Date**"), which shall also be revised from time to time in accordance with the Listing Rules. Saved as disclosed below, the Board considers the Company has complied with the code provisions as set out in the CG Code.

### **CODE PROVISION A.2.1**

Under code provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Chen Zhi, who acts as the chairman and chief executive officer of the Company, is responsible in pioneering the Company's distinctive business model and undertaking the main decision-making role in the management of the Company's overall operations and overseeing the strategic development of the Group. The Board will meet regularly to consider and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that the sufficient measures have been taken and it will not impair the balance of power and authority between the Board and the management.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by the directors of the Company of Listed Issuers (the "**Model Code**") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the directors of the Company. Specific enquiries have been made with all the directors of the Company and all of them confirmed and declared that they have complied with the required standards as set out in the Model Code during the period from the Listing Date to 31 December 2014.

## **AUDIT COMMITTEE**

The Audit Committee has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written term of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has also held meeting with the Group's external auditors, PricewaterhouseCoopers, without the presence of executive directors and management of the Group, to discuss matters arising from the auditing and report to the Board of material issues, if any, and make recommendations to the Board. The Audit Committee consists of three independent non-executive directors of the Company, namely Mr. Wong Heung Ming, Henry, Mr. Zhou Chang Ren, and Mr. Cai Jian Quan. Mr. Wong Heung Ming, Henry is the chairman of the Audit Committee. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2014.

## **EXTRACT OF INDEPENDENT AUDITOR'S REPORT**

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2014:

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Emphasis of matter**

We draw attention to Note 2.1.1 to the consolidated financial statements, which states that the Group incurred a net loss of RMB307,104,000 and had a net cash outflow from operating activities of RMB55,398,000 during the year ended 31 December 2014. These conditions, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate that the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

### **Other matters**

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company has not redeemed any of its listed shares during the year ended 31 December 2014. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the year ended 31 December 2014.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

The annual results announcement is published on the websites of the Company ([www.shifangholding.com](http://www.shifangholding.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). An annual report of the Company for the year ended 31 December 2014 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available on the abovementioned websites in due course.

By order of the Board  
**ShiFang Holding Limited**  
**Chen Zhi**  
*Chairman*

Hong Kong, 26 March 2015

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Zhi (Chairman), Mr. Hong Pei Feng, Mr. Zhang Tie Zhu and Mr. Yu Shi Quan; the non-executive director of the Company are Mr. Wang Ping and Ms. Chen Min; the independent non-executive directors of the Company are Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan.*