KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

ANNUAL REPORT 2014

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Xue Jian
Mr. Law Wing Chi, Stephen

Non-executive Director
Mr. Hu Yishi *(Chairman)*

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

AUDIT COMMITTEE
Mr. Tam Sun Wing *(Chairman)*
Mr. Ng Ge Bun
Mr. He Yi

REMUNERATION COMMITTEE
Mr. Tam Sun Wing *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Ng Ge Bun

NOMINATION COMMITTEE
Mr. Ng Ge Bun *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Tam Sun Wing

COMPANY SECRETARY
Mr. Law Wing Chi, Stephen

STOCK CODE
1215

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www.kaiyuanholdings.com

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MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

SHARE REGISTRAR
Tricor Tengis Limited
22nd Floor
Hopewell Centre
183 Queens's Road East
Hong Kong

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG
28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

AUDITORS
Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

SOLICITORS
K&L Gates Solicitors
44th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS
The Hong Kong & Shanghai Banking Corporation Limited
China Merchants Bank Company Limited

Chairman's statement

On behalf of the Board of Directors (the "Board") of Kai Yuan Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I hereby present the results of the Group for the year ended 31 December 2014 (the "Year").

The Group recorded the profit for the Year of HK$105.6 million, turnaround from the loss of HK$97 million for the year ended 31 December 2013. The net profit attributable to owners of the Company for the Year amounted to HK$106.4 million as compared to the net loss of HK$104.9 million of last year.

2014 is a remarkable year as the Group successfully diversified business reach outside Asia to France in Europe. During the Year, the Group completed the acquisition of property and hotel operations of the Paris Marriott Hotel Champs-Elysées (the "Acquisition") in October 2014. Together with the Butterfly on Waterfront in Sheung Wan in Hong Kong, the Group anticipates both hotels shall contribute stable revenue and capital gain potentials. Subsequent to the Acquisition, gearing ratio of the Group increases significantly as compared with last year, the Group will consider feasible measures to improve the gearing ratio if opportunities arise.

The Group's heat energy operations in Tianjin city offered unique public utility service and contributed stable revenue stream. However, the profitability of this segment fluctuated from year to year. Following announcement on development of new free trade zone in Tianjin City in December 2014, the Group anticipates the entire Tianjin city shall further develop as a whole.

Benefited from continuous decrease in prices of constituent raw materials such as iron ore, profitability of the Group's associates engaged in steel manufacturing and trading was improved. During the Year, the Group shared the profit of HK$373.2 million from the associates as compared to the share of loss of HK$2.9 million for last year.

Looking forward, the Group anticipates the overall global business and investment outlook of 2015 will continue to be challenging as the result of uneven global economic recovery. The Group will remain vigilant on performance of investments from current business segments, but remain attentive to potential growth opportunities offered from new business initiatives.

In conclusion and on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, customers, employees, suppliers and partners for their continuous support and encouragement.

Hu Yishi
Chairman
27 March 2015

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2014 (the "Year"), revenue of the Group amounted to HK$407.0 million, representing a decrease of 46.3% from approximately HK$757.5 million for the year ended 31 December 2013 (the "Previous Year"). The decrease in revenue was mainly attributable to the absence of revenue from trading in iron ore and materials related to steel manufacturing (the "Iron Ore and Other Materials") after termination of such business in the fourth quarter of 2013, and was compensated by increase in revenue contributed from hotel operation in France and Hong Kong.

The Group recorded a profit for the Year of HK$105.6 million, as compared to the loss of HK$97.0 million in the Previous Year. The profit for the Year was principally attributable to (i) the share of profit from the Group's associates engaged in steel manufacturing and trading (the "Associates"); and (ii) the absence of provision for impairment of investments in Associates and impairment loss provided for long-term assets of the Associates for the Year, offset by (i) the increase in foreign exchange loss; and (ii) direct expenses (including stamp duty, professional fees, government fees and taxation etc.) relating to the acquisition of Paris Marriott Hotel Champs-Elysées (the "Paris Marriott Hotel").

Net profit attributable to owners of the Company for the Year amounted to HK$106.4 million, as compared to the net loss attributable to owners of the Company of HK$104.9 million in the Previous Year. The basic and diluted profit per share for the Year was HK$1 cent as compared to the basic and diluted loss per share of HK$1 cent in the Previous Year.

Segmental review of the Group's operations during the Year is as follows:

HOTEL OPERATION

The Group successfully completed the acquisition of the property and hotel operating business of Paris Marriott Hotel in France in the fourth quarter of the Year at the aggregate consideration of EUR344,597,934. Together with the Butterfly on Waterfront Sheung Wan (previously known as Hotel de EDGE) (the "Butterfly Hotel") located in Hong Kong, both hotels contributed a constant revenue flow for the Group. The occurrence of "Occupy Central" movement in Hong Kong had adverse effects on occupancy, average daily room rate and RevPAR* of the Butterfly Hotel during the movement period. Below is a summary on operational performance of both hotels during the Year:

	Occupancy	Average Daily Room Rate	RevPAR*
Paris Marriott Hotel, France	90.1%	EUR471	EUR425
Butterfly Hotel, Hong Kong	97.5%	HK$936	HK$912

* Revenue per available room

During the Year, the Group recorded revenue of HK$88.7 million from the hotel operation segment, as compared to revenue of HK$1.3 million in the Previous Year. The increase in revenue for the Year was mainly attributable to an entire year of revenue recognised by the Butterfly Hotel. Besides, the Group began to recognise revenue from the Paris Marriott Hotel from the fourth quarter of the Year. The Group recorded segmental loss of approximately HK$145.1 million, as compared to the loss of approximately HK$7.0 million in the Previous Year.

HEAT ENERGY SUPPLY

The Group's heat energy supply subsidiaries in Tianjin, PRC operated heat energy supply projects located in the Meijiang district, Jinxia Xindu district and Xiqing Nanhe district (the "Three Districts"), which continued to contribute steady heat energy supply revenue to the Group. During the Year, the Group recorded revenue of HK$318.3 million from the heat energy supply segment as compared to HK$323.6 million in the Previous Year. The decrease in revenue was mainly attributable to decrease in heat connection fee from new development projects launched in the Three Districts. Furthermore, the Group's heat energy supply facilities had yet to be utilized at efficient levels to achieve economies of scale. During the Year, the Group recorded segmental loss of approximately HK$2.0 million as compared to the profit of approximately HK$30.4 million in the Previous Year.

STEEL MANUFACTURING AND TRADING

During the Year, structural problems such as overcapacity in China's steel industry, weak demand of steel products and modest economic growth in the PRC continued to challenge the Group's associates engaged in steel manufacturing and trading, namely Rizhao Steel Co., Limited, Rizhao Medium Section Mill Co., Limited, and Rizhao Steel Wire Co., Limited. However, continuous decrease in prices of constituent raw materials such as iron ore assisted to reduce production costs, then to increase profitability of the Associates. Besides, there was no provision for impairment of investments in the Associates or impairment loss provided for long-term assets of the Associates of the Year. During the Year, the Group shared the profit of HK$373.2 million from the Associates, as compared to the share of the loss of HK$2.9 million in the Previous Year.

PROSPECTS

HOTEL OPERATION

France remains one of the world's favored tourist destinations. In accordance with the World Tourism Organisation, there are more than 84 million of tourists visiting France in 2014. The tragic Charlie Hedbo incident occurred in Paris in early January 2015 had only temporary effects on January performance of the Paris Marriott Hotel, and hotel room pickup has now returned to pre-incident levels. After the European Central Bank declared €1 trillion bond buying plan, we trust that exchange rate of Euro against other major currencies shall hover around low levels for a period, with reference to recent market research and analysis published by international financial institutions. The Group anticipates low Euro exchange rate shall stimulate tourists visiting Paris, the capital city of France.

In Hong Kong, tourism remains one of the four pillar economic sectors. There was a record of 60.8 million of visitors travelling to Hong Kong in 2014, representing an increase of 12% from 2013. Despite the fact that adverse effects of the "Occupying Central" movement continue to 2015, the Group anticipates the performance of the Butterfly Hotel shall benefit from improved convenience of access by travellers, after official opening of Mass Transit Railway West Island Line Sai Ying Pun Station by late March 2015.

The Group holds positive view towards investing in hotels, as this segment would bring solid revenue base and capital gain potentials. The Group shall continue to look for promising investment opportunities locally or worldwide from time to time.

HEAT ENERGY SUPPLY

The Group's heat energy operations in Tianjin city have been developed at advanced pace amongst other major cities in the PRC due to its close proximity to the capital city, Beijing. These subsidiaries were acquired in 2008 with a view to capturing the increase in demand for heat supply in the PRC as Tianjin city developes. Furthermore, it was hoping that the uniqueness of heat supply industry will bring stable revenue stream and potential development to the Group. The Group is pleased with the stable revenue generated from this segment throughout the years. However, restricted by the number of new projects launched in the Three Districts and the Group's heat energy supply facilities had yet to be utilized to achieve economies of scales, the profitability of this segment fluctuated from year to year. Following announcement on development of new free trade zone in Tianjin city in December 2014, the Group anticipates the entire Tianjin city shall further develop as a whole. The Group is also of the view that improved operational efficiency is the key to achieve a constant profitability which could be realized by accelerated pace of development within the Three Districts. Meanwhile, the Group will closely monitor the performance of the heat energy operations, and carry out review and reassessment on operation, especially the inelastic fixed cost structure of heat energy generation. The Group will exercise cautions in this manner with a view to maximizing returns for shareholders.

STEEL MANUFACTURING AND TRADING

China's steel industry remains clouded with macroeconomic regulation and control measures. It is expected that the perennial problems such as excess capacity shall continue to suppress the overall profitability of the industry in 2015. The Group's associates engaged in steel manufacturing and trading were acquired in 2009, in consideration of the cyclical nature of the steel industry and the leading position of the Associates over other rivals in the industry. However, the unexpected abrupt decrease in steel demand related to the stagnant PRC property market which was stimulated by the national policies of the Chinese government since 2011, had lead the Group to make impairment provision on both long-term assets and investments in associates consecutively in past two years. Also, the Group recorded loss shared from the Associates for the past three years by 2013. For the year ended 31 December 2014, the Group shared a profit from the Associates of HK$373.2 million. Notwithstanding the improvement in the operation of the Associates, the Group is merely a passive investor and does not have control over the business operation and financing activities etc of the Associates. The Group will continue to review the performance of the Associates and actively seek for opportunities to enhance returns. The Group perceives weak market sentiments and possible challenges ahead in respect of this segment, partly due to the moderate 2015 economic growth set by the Chinese government at 7 percent, but hopes that China's new urbanization strategy underway would enhance pick-up in demand of steel.

LOOKING AHEAD

The Directors are optimistic to the long term business development in the hotel operation. The Group will continue to explore investment opportunities and remain dedicated to constantly review, reinforce and, if appropriate, restructure its existing business segments with a view to enhancing and improving returns to our stakeholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, total assets and net assets of the Group were approximately HK$7,961.8 million and HK$3,058.6 million respectively, as compared to approximately HK$3,806.6 million and HK$3,017.1 million as at 31 December 2013. The cash and bank balance of the Group as at 31 December 2014 were approximately HK$400.9 million (31 December 2013: HK$196.8 million), representing an increase of 103.7% from the Previous Year. The total current assets increased by 57.2% to approximately HK$600.8 million during the Year (31 December 2013: HK$382.2 million). As at 31 December 2014, the Group's outstanding bank and other borrowings amounted to approximately HK$3,645.6 million (31 December 2013: HK$6.4 million). As at 31 December 2014, the net current liabilities of the Group were approximately HK$84.1 million (31 December 2013: HK$214.9 million). As at 31 December 2014, the Group's gearing ratio (total borrowings/total assets) was at 47.3% (31 December 2013: 3.3%), the significant increase in gearing ratio for the Year is mainly attributable to loans from a related company and bank loans incurred to finance the acquisition of the Paris Marriott Hotel. The Group will conduct a review on the current financing facilities, exercise cautions in reallocating financing resources among the existing business segments, and consider feasible measures to improve the gearing ratio if suitable opportunities arise.

ACQUISITIONS AND DISPOSALS

During the Year, the Group acquired the property and operations of Paris Marriott Hotel from a third party. Details of the acquisition of Paris Marriott Hotel are disclosed in note 39 to notes to the financial statements.

FOREIGN EXCHANGE EXPOSURE

The Group has operations in PRC, France, Luxembourg and Hong Kong where transactions and cash flows are denominated in the local currencies, including Renminbi, Euro and Hong Kong dollars. As a result, the Group is exposed to foreign currency exposures with respect to Euro which mainly arise from conduction of daily operations and financing activities by local offices where local currency is different from the Group. For the year ended 31 December 2014, the Group has not entered into any forward contracts to hedge the foreign exchange exposure. The Group manages its foreign exchange risks by performing regular review and monitoring of the foreign exchange exposure. The Group will consider employing foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

The Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK$101,411,000 granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the Directors believe it is not probable that an outflow will be required to settle the obligation.

PLEDGE ON THE GROUP'S ASSETS

As at 31 December 2014, time deposits amounting to HK$3.2 million were pledged to secure certain bills payables (31 December 2013: HK$10.4 million). Besides, certain of the Group's buildings with a net carrying amount of approximately HK$3,727.5 million (2013: nil) were pledged to secure general banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION

The Group had 173 employees as at 31 December 2014 (31 December 2013: 209). Remuneration policies are reviewed regularly to ensure that compensation and benefit packages are in line with the market level. In addition to basic remuneration, the Group also provides other employee benefits including bonuses, mandatory provident fund scheme and medical scheme. At the discretion of the Board, the Group may grant share options to eligible employees and participants.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Xue Jian

Mr. Xue Jian, aged 49, was appointed as a non-executive Director on 7 January 2009, and was re-designated as an executive Director on 6 January 2011, he is also appointed as director of certain subsidiaries of the Company. Mr. Xue received his master's degree in business administration from Zhongnan University of Finance, Economics, Politics and Law. Mr. Xue has over two decades of experience in the steelmaking industry and in the commercial sector in the People's Republic of China (the "PRC"). He was the legal representative of Rizhao Steel Co., Limited, and is a director of Rizhao Steel Holding Group Co., Limited. The Rizhao Steel group of companies is one of the largest private steel makers in the PRC. Mr. Xue is also a director of Rizhao Bank (formerly known as Rizhao City Commercial Bank) and a director of Laishang Bank. Apart from his engagement in private sector, Mr. Xue is active in the pursuit for public causes, holding positions included the deputy director of Center for Studies on China's Circular Economy and Environment, the senior consultant of China Health & Medical Development Foundation.

Mr. Law Wing Chi, Stephen

Mr. Law Wing Chi, Stephen, aged 43, was appointed as an executive Director on 18 May 2011, he has also been appointed as members of the remuneration committee and nomination committee of the Company as well as chief financial officer, existing process agent and company secretary of the Company. Mr. Law also serve as director, company secretary and legal representative to a number of Group companies. Mr. Law has extensive experience in financial management and professional accounting. Prior to joining the Company, Mr. Law was the chief financial officer of Diamondlite Group, one of the leading jewelry manufacturers in the PRC. Having started his career as a professional accountant in an international accountancy firm, Mr. Law has undertaken key financial management positions in companies engaged in a variety of industries. Mr. Law is an associate member of the Hong Kong Institute of Certified Public Accountants and holds a Bachelor of Arts Degree in Accountancy from the City University of Hong Kong.

NON-EXECUTIVE DIRECTOR

Mr. Hu Yishi (Chairman)

Mr. Hu Yishi, aged 39, was appointed as an executive Director and the Chairman of the Company on 17 April 2007 and was re-designated as a non-executive Director on 29 December 2010. Mr. Hu has extensive experience in China affairs and business. He graduated from Shanghai International Tourism Vocational Technology School and is an executive director of Zhong Fa Zhan Holdings Limited (formerly known as Noble Jewelry Holdings Limited), the issued shares of which are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Hu was previously an executive director of China Pipe Group Limited and Up Energy Development Group Limited (formerly known as Sun Media Group Holdings Limited), the issued shares of both companies are listed on the Stock Exchange.

Directors' Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Sun Wing

Mr. Tam Sun Wing, aged 57, was appointed as an independent non-executive Director on 14 December 2001, he has also been appointed as chairman of the audit committee and the remuneration committee, and the member of the nomination committee of the Company. Mr. Tam is a professional accountant having more than 30 years of audit and business advisory experience of which 8 years were with an international accounting firm. He has also been in private practice since 1992. Mr. Tam is a director of FTW & Partners CPA Limited. He has extensive experience in providing business advisory service and conducting audits of listed and other companies in the businesses of toy manufacturing and trading, electronics, property development and holding, securities, insurance and retailing. Mr. Tam is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong and also registered as a Certified Tax Advisor. Mr. Tam was admitted to the Master Degree of Science in Corporate Governance and Directorship from Hong Kong Baptist University. Mr. Tam was an independent non-executive director as well as chairman of each of the audit, nomination and remuneration committees of Peace Map Holding Limited, the issued shares of which are listed on the Stock Exchange, for the period from 12 December 2012 to 30 November 2014.

Mr. Ng Ge Bun

Mr. Ng Ge Bun, aged 57, was appointed as an independent non-executive Director on 30 September 2004, he has also been appointed as member of the audit committee and the remuneration committee and chairman of the nomination committee of the Company. Mr. Ng holds the Degree in Bachelor of Science and Degree in Bachelor in Laws. He obtained a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

Mr. He Yi

Mr. He Yi, aged 42, was appointed as an independent non-executive Director on 18 May 2011, he has also been appointed as member of the audit committee, the remuneration committee, and the nomination committee of the Company. Mr. He acts as the branch manager of Barclays Bank Shanghai Branch and has extensive experience in the financial industry. Mr. He started his career with Credit Agricole Indosuez in Shanghai and was the head of treasury department and financial institutions department of the Shanghai branch of First Sino Bank and the head of global markets, China and deputy general manager of the Shanghai branch of Australia and New Zealand Banking Limited Mr. He is a member of The Chinese Institute of Certified Public Accountants and a certified economist accredited by The Ministry of Personnel of China. Mr. He also holds a post graduate master degree of economics from Fudan University, Shanghai, China.

Corporate Governance Report

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

The Board has set up procedures on corporate governance that comply with the requirements of the Listing Rules on corporate governance practices based on the principles and code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to Listing Rules.

The Company had complied with the code provision of the CG Code throughout the year ended 31 December 2014 with the following deviation:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman is not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that the Chairman should not be subject to retirement by rotation or hold office for a limited term at the present time.

- E1.2 The Chairman of the Board did not attend the annual general meeting held on 15 May 2014 due to the fact that he had other business commitments. Another executive Director, Mr. Law Wing Chi, Stephen was elected to chair the annual general meeting in accordance with the Company's Bye-Laws.

The Board will keep this matter under review.

Following sustained development and growth of the Company, we will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders of the Company.

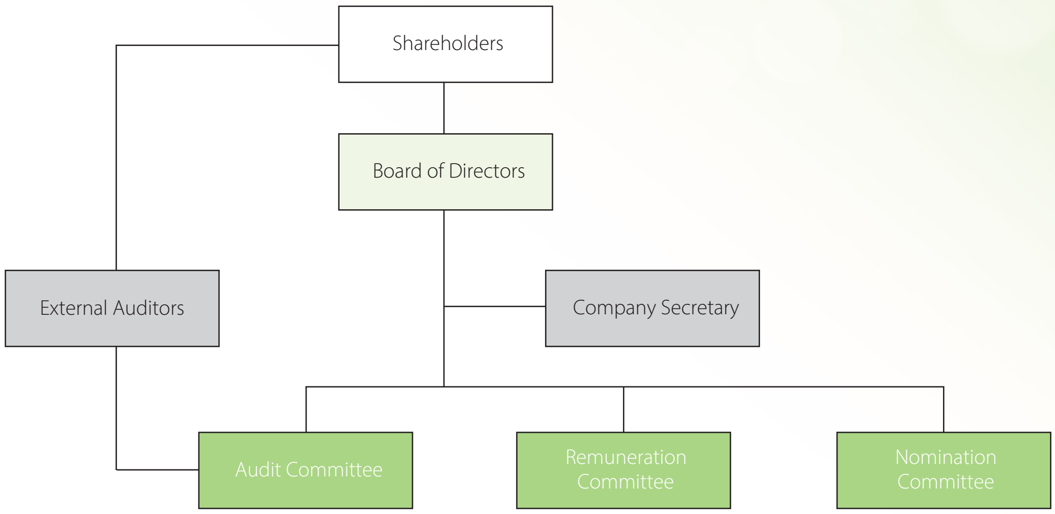
The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer, further announcement will be made by the Company upon such appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



BOARD

(A) BOARD COMPOSITION

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors, serving the important function of guiding the management.

The Board members during the year and up to the date of this annual report are as follows:-

Executive Directors
Mr. Xue Jian
Mr. Law Wing Chi, Stephen

Non-executive Director
Mr. Hu Yishi *(Chairman)*

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

There are no relationships (including financial, business, family or other material/relevant relationship) among the Directors. All Directors of the Company are not appointed for a specific term. Although all Directors of the Company are not appointed for a specific term, all Directors, except the Chairman, are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws.

(B) ROLE AND FUNCTION

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support from senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 31 December 2014, the Board had held meetings and discussed following issues:

1. reviewed the internal control system and risk management of the Group;

2. discussed the annual results of the Group for the year ended 31 December 2013 and the interim results of the Group for the period ended 30 June 2014 respectively;

3. considered the recommendation of any final dividend for the year ended 31 December 2013 and the book close period, if any;

4. proposed re-election of Directors;

5. proposed the re-appointment of Ernst & Young as the auditors of the Company, and discussed the auditors remuneration for the annual audit;

6. reviewed the effects on the changes of the Accounting standards and principles;

7. proposed the general mandates to issue and repurchase shares of the Company; and

8. approved the acquisition of Paris Marriott Hotel Champs-Elysées (comprising the property and operations of the hotel).

(C) MEETING RECORDS

There were in total twelve Board meetings and general meetings held for the year ended 31 December 2014.

The following set out the attendance record of Board meetings and general meetings held during the year:

	Attendance for board Meeting the year ended 31 December 2014	
Board members	**Board Meetings**	**General Meetings**
Mr. Hu Yishi	10/10	0/2
Mr. Xue Jian	10/10	0/2
Mr. Law Wing Chi, Stephen	10/10	2/2
Mr. Tam Sun Wing	10/10	1/2
Mr. Ng Ge Bun	10/10	2/2
Mr. He Yi	10/10	2/2

There were one general meeting and one special general meeting held for the year ended 31 December 2014.

(D) INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2014, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

(E) CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the corporate governance policy and performing the corporate governance duties including the followings:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of the Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

(F) DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors are committed to participate in continuous professional development. The Directors are regularly briefed on amendments and updates on the relevant laws, rules and regulations.

The Company has arranged, and all Directors namely, Mr. Xue Jian, Mr. Law Wing Chi, Stephen, Mr. Hu Yishi, Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi have enrolled and attended relevant professional development courses to assist the Directors in discharging their duties. The Company has also arranged presentations to Directors that are conducted by external professional bodies in relation to updates and developments in the statutory and regulatory regime of the Group's business and the business environment.

(G) DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements of the Group, and to report on material uncertainties, if any, relating to events or conditions that may cost significant doubt upon the Group's ability to continue preparing the accounts on a going concern basis.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The division of the responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in the Code of Corporate Governance of the Company. The Chairman provides leadership for the Board and the Chief Executive Officer has overall chief executive responsibility for the Group's business development and day-to-day management generally. During the year, Mr. Hu Yishi ("Mr. Hu") was the Chairman of the Company.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer, further announcement will be made by the Company upon such appointment. The responsibilities of chief executive officer has been shared by the executive Directors during the year.

NON-EXECUTIVE DIRECTOR

There is no specific length or proposed length of service in respect of Mr. Hu's appointment, as the Chairman of the Company. Whilst holding such office, Mr. Hu is not subject to retirement by rotation in accordance with the Company's Bye-Laws. Mr. Hu is entitled to a fixed director's fee of HK$200,000 per annum and emoluments to be determined with reference to the experience and duties of Mr. Hu and his role played in the Board and is subject to review by the Remuneration Committee of the Board.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

(A) AUDIT COMMITTEE

The Audit Committee was established on 14 December 2001. It currently consists of three independent non-executive Directors.

Composition of Audit Committee for the year ended 31 December 2014 is as follow:

Mr. Tam Sun Wing *(Chairman)*
Mr. Ng Ge Bun
Mr. He Yi

Role and function

The Audit Committee is mainly responsible for:

1. discussing with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

2. reviewing the Company's interim and annual financial statements before submission to, and providing advice and comments thereon to the Board of Directors;

3. considering the appointment of external auditors and their audit fees;

4. discussing problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

5. assessing the risk environment and review internal control procedure manual of the Group.

Meeting Record

The Audit Committee met three times during the year to discuss and approve the interim and annual results, and to review the internal control procedures of the Group.

The following set out the attendance record of Audit Committee meetings held for the year ended 31 December 2014:

Committee member	Attendance at meetings held for the year ended 31 December 2014
Mr. Tam Sun Wing	3/3
Mr. Ng Ge Bun	3/3
Mr. He Yi	3/3

During the meetings, the Audit Committee discussed the following matters:

(1) Financial Reporting
The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors and the Chief Financial Officer were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors
The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company. The Audit Committee had also discussed on auditor's independence, objectivity and effectiveness of audit process.

(3) Internal Control
The sufficiency and efficiency of the internal control system and risk management.

(B) REMUNERATION COMMITTEE

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and three independent non-executive Directors.

Composition of the Remuneration Committee for the year ended 31 December 2014:

Mr. Tam Sun Wing *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. Ng Ge Bun
Mr. He Yi

Role and function
The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

2. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some Remuneration Committee decisions are approved by way of written resolutions passed by all the committee members.

For the year ended 31 December 2014, three Remuneration Committee meetings were held and the attendance record is as follow:

Committee member	**Attendance at meetings held for the year ended 31 December 2014**
Mr. Tam Sun Wing	3/3
Mr. Law Wing Chi, Stephen	3/3
Mr. Ng Ge Bun	3/3
Mr. He Yi	3/3

During the meetings, the Remuneration Committee discussed the remuneration packages of Directors and senior management with reference to the prevailing market conditions. The Remuneration Committee had also discussed on remuneration policy and performance assessment for executive Directors.

(C) NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and three independent non-executive Directors.

Composition of the Nomination Committee for the year ended 31 December 2014:

Mr. Ng Ge Bun *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. Tam Sun Wing
Mr. He Yi

Role and function

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.5.2 of the CG Code. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the year ended 31 December 2014, there were two meetings held. The following is an attendance record of the Nomination Committee meeting held for the year ended 31 December 2014:

Committee member	Attendance at meeting held for the year ended 31 December 2014
Mr. Ng Ge Bun	2/2
Mr. Law Wing Chi, Stephen	2/2
Mr. Tam Sun Wing	2/2
Mr. He Yi	2/2

During the meetings, the Nomination Committee reviewed the composition of the Board, it had also discussed on policy for nomination of Directors.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholders are entitled to attend the annual and special general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or Chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:

Hotline no. : (852) 2804-2221

By post : 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong

PROCEDURES FOR SHAREHOLDERS TO CONVENE A SPECIAL GENERAL MEETING

Shareholder(s) can by written requisition to the Board or the secretary of the Company to require a special general meeting be called by the Board for the transaction of any business specified in such requisition. To raise such requisition, the shareholder(s) must have held at the date of deposit of such requisition not less than one-tenth of the paid up capital of the Company carrying right to vote at general meetings of the Company (Bye-laws 58).

The meeting so requisitioned shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such requisition deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with section 74(3) of the Companies Act 1981 of Bermuda.

PROCEDURES FOR SHAREHOLDERS TO PUT ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary whose contact details are as follows:

The Company Secretary

Kai Yuan Holdings Limited

28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong

Email : enquiry@kaiyuanholdings.com

Telephone No. : (852) 2804-2221

Facsimile No. : (852) 2723-8571

The company secretary will forward the shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to answer the shareholders' questions.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

According to the bye-laws of the Company, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the company secretary of the Board of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of the Companies Act 1981 of Bermuda.

AUDITORS REMUNERATION

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also provided interim review of the Group's results and taxation advisory service of the Group.

For the year ended 31 December 2014, Ernst & Young, the external auditors provided following services to the Group:

	Ernst & Young
	HK$'000
Audit services	5,500
Taxation services	39

INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The committee reviewed the Group's procedures and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

COMPANY SECRETARY

Mr. Law Wing Chi, Stephen, the company secretary for the year ended 31 December 2014, was a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The company secretary reports to the Board Chairman and has taken no less than 15 hours of relevant professional training.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual Reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans. Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 31 December 2014, the following shareholder meetings were held by the Company:

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
15 May 2014	Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong.	Annual General Meeting	1. To adopt the audited financial statements and the reports of the Directors and auditors 2. To re-elect Directors and to authorise the Board to fix their remuneration 3. To re-appoint Ernst & Young as the auditors and authorise the Board to determine their remuneration 4. To approve the general mandates to issue and repurchase shares of the Company 5. To approve refreshment of scheme mandate limit under the share option scheme	By poll
19 September 2014	Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong.	Special General Meeting	To approve the acquisition of Paris Marriott Hotel Champs-Elysées (comprising the property and operations of the hotel)	By poll

FINANCIAL CALENDAR FOR 2015

Event	Proposed Date
Announcement of 2014 annual results	27 March 2015
Annual General Meeting	May 2015
Announcement of 2015 interim results	Late August 2015

The Directors present their annual report and audited financial statements for the year ended 31 December 2014.

PRINCIPLE ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries is set out in note 20 to the audited financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Group and the Company at that date are set out in the audited financial statement pages 29 to 115.

The Board does not recommend the payment of final dividend for the year ended 31 December 2014 (2013: nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate is set out on page 116. This summary does not form part of the audited financial statement.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 16 to notes to the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS, AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, and convertible bonds during the year are set out in notes 36, 37 and 34 to notes to the audited financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the notes to the audited financial statement and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company does not have any distributable reserves.

CHARITABLE CONTRIBUTIONS

During the year, no charitable donation was made (2013: nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 65% of the total purchase for the year and purchases from the largest supplier included therein amounted to 33%. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors during the year were:

Executive Directors:
Mr. Xue Jian
Mr. Law Wing Chi, Stephen

Non-executive Director:
Mr. Hu Yishi *(Chairman)*

Independent non-executive Directors:
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

The Directors, save and except for the Chairman, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87(1) and 87(2) of the Company's Bye-laws.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

BIOGRAPHIES DETAILS OF DIRECTORS

Biographical details of the Directors of the Company are set out on pages 8 to 9 of the annual report.

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DIRECTORS' SERVICE CONTRACTS

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Subject to shareholders' approval at annual general meetings authorising the Board, remuneration of Directors are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to which the Company, or any of its subsidiaries was a party during the year or at the end of the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2014, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to section 352 of SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code, were as follows:

Long position – ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Number of shares held	Percentage of issued share capital
Mr. Hu Yishi	Beneficial interest	1,300,000,000	10.17%

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executive of the Company had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section titled "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 37 to the audited financial statements.

CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERSONS HOLDING 5% OR MORE INTERESTS IN SHARES AND UNDERLYING SHARES

At as 31 December 2014, the following persons (other than a Director or chief executive of the Company) had interests or short positions in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of ordinary shares held	Percentage of issued share capital
Mr. Du Shuang Hua	Interest of controlled corporation	708,000,000	5.54%
Happy Sino International Limited [1]	Beneficial interest	708,000,000	5.54%
Mr. Zhang He Yi	Beneficial interest	1,400,000,000	10.96%
Mr. Qi Shi An	Beneficial interest	600,000,000	4.70%
Ms. Lu Xiao Mei	Interest of controlled corporation	753,190,000	5.89%
Sincere Profit Group Limited [2]	Beneficial interest	753,190,000	5.89%
Ga Leung Investment Company Limited [3]	Beneficial interest	1,866,666,666	14.61%
Mr. Sun Yong Feng	Interest of controlled corporation	1,866,666,666	14.61%
	Beneficial interest	133,000,000	1.04%
Ms. Meng Ya [4]	Interest of spouse	1,999,666,666	15.65%

1. Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially owns 85% and 15 % interest respectively in the issued share capital of Happy Sino International Limited. Mr. Du Shuang Hua is deemed to be interested in the 708,000,000 shares held by Happy Sino International Limited under the provisions of the SFO.

2. Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited. Ms. Lu Xiao Mei is deemed to be interested in the 753,190,000 shares held by Sincere Profit Group Limited under the provisions of the SFO.

3. Mr. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited. Mr. Sun Yong Feng is deemed to be interested in the 1,866,666,666 shares held by Ga Leung Investment Company Limited under the provisions of the SFO.

4. Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 1,999,666,666 shares in which Mr. Sun Yong Feng is interested.

Save as disclosed above, as at 31 December 2014, no person, other than the Directors and chief executive of the Company, whose interests or short positions are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 10 to 21 of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company did not have any connected transactions and continuing connected transactions which were subject to the disclosure requirements of the Listing Rules. The related party transactions as disclosed in note 46 to the audited financial statements did not fall under the definition of connected transactions or continuing connected transactions in the Listing Rules. The Company confirms that the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float throughout the year ended 31 December 2014.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 50 to the audited financial statements.

EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, Company performance and individual qualifications and performance.

AUDITORS

The Financial Statements have been audited by Ernst & Young ("EY"). EY shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of EY as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Law Wing Chi, Stephen
27 March 2015

Independent Auditors' Report

To the shareholders of Kai Yuan Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 March 2015

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**407,020**	757,490
Cost of sales		**(342,885)**	(685,804)
Gross profit		**64,135**	71,686
Other income and gains	6	**9,261**	16,788
Other expenses	7	**(68,569)**	(67,908)
Administrative expenses		**(256,185)**	(73,858)
Finance costs	8	**(34,753)**	(31,473)
Share of profits/(losses) of associates		**373,156**	(2,933)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	9	**87,045**	(87,698)
Income tax credit/(expense)	11	**18,536**	(23,699)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**105,581**	(111,397)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	13	**–**	14,424
PROFIT/(LOSS) FOR THE YEAR		**105,581**	(96,973)
Attributable to:			
Owners of the Company	12	**106,417**	(104,860)
Non-controlling interests		**(836)**	7,887
		105,581	(96,973)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	15		
Basic			
– For profit/(loss) for the year		**HK 1 cent**	(HK 1 cent)
– For profit/(loss) from continuing operations		**HK 1 cent**	(HK 1 cent)
Diluted			
– For profit/(loss) for the year		**HK 1 cent**	(HK 1 cent)
– For profit/(loss) from continuing operations		**HK 1 cent**	(HK 1 cent)

Details of the dividends payable and proposed for the year are disclosed in note 14 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**105,581**	(96,973)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**(25,479)**	–
Reclassification adjustments for loss included in the consolidated statement of profit or loss	*31*	**1,239**	–
Income tax effect	*35*	**8,080**	–
		(16,160)	–
Exchange differences on translation of foreign operations		**(47,883)**	70,760
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary		**–**	(18,270)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(64,043)**	52,490
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(64,043)**	52,490
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**41,538**	(44,483)
Attributable to:			
Owners of the Company		**43,418**	(61,556)
Non-controlling interests		**(1,880)**	17,073
		41,538	(44,483)

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**4,489,893**	1,292,607
Prepaid land lease payments	17	**35,686**	39,478
Goodwill	18	**329,917**	–
Other intangible assets	19	**85,603**	92,914
Investments in associates	21	**2,357,666**	1,989,598
Available-for-sale investments	22	**5,895**	5,915
Deferred tax assets	35	**53,292**	–
Other long-term assets	23	**3,046**	3,871
Total non-current assets		**7,360,998**	3,424,383
CURRENT ASSETS			
Inventories	24	**9,402**	5,762
Trade receivables	25	**22,512**	1,798
Other receivables and prepayments	26	**27,147**	19,235
Prepaid land lease payments	17	**3,370**	3,092
Other long-term assets - current portion	23	**812**	815
Amounts due from related companies	27	**133,518**	144,376
Pledged deposits	28	**3,169**	10,366
Cash and cash equivalents	28	**400,897**	196,774
Total current assets		**600,827**	382,218
Total assets		**7,961,825**	3,806,601
CURRENT LIABILITIES			
Trade and bills payables	29	**46,183**	59,499
Other payables and accruals	30	**221,367**	195,606
Receipt in advance		**138,239**	129,509
Derivative financial instruments	31	**6,224**	–
Interest-bearing bank borrowings	32	**12,000**	6,360
Amounts due to related companies	27	**96,478**	44,285
Loans from a related company	33	**118,365**	120,463
Tax payable		**46,049**	41,349
Total current liabilities		**684,905**	597,071
NET CURRENT LIABILITIES		**(84,078)**	(214,853)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,276,920**	3,209,530

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,276,920**	3,209,530
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**1,779,245**	–
Loans from a related company	33	**1,854,308**	–
Deferred tax liabilities	35	**566,710**	192,427
Derivative financial instruments	31	**18,016**	–
Total non-current liabilities		**4,218,279**	192,427
Net assets		**3,058,641**	3,017,103
EQUITY			
Equity attributable to owners of the Company			
Share capital	36	**1,277,888**	1,277,888
Reserves	38	**1,475,665**	1,432,247
		2,753,553	2,710,135
Non-controlling interests		**305,088**	306,968
Total equity		**3,058,641**	3,017,103

Approved on behalf of the board of directors:

Xue Jian
Director

Law Wing Chi, Stephen
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

		Attributable to owners of the Company									
		Share capital	Equity component of convertible bonds	Share premium*	Hedging reserve*	Translation reserve*	Retained profits*	Other reserve*	Total	Non-controlling interests	Total equity
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013		1,091,221	38,915	894,724	–	322,152	116,079	13,050	2,476,141	289,895	2,766,036
Loss for the year		–	–	–	–	–	(104,860)	–	(104,860)	7,887	(96,973)
Other comprehensive income for the year:											
Exchange difference on translation of foreign operations		–	–	–	–	61,574	–	–	61,574	9,186	70,760
Reclassification of translation reserve due to disposal of a subsidiary		–	–	–	–	(18,270)	–	–	(18,270)	–	(18,270)
Total comprehensive income for the year		–	–	–	–	43,304	(104,860)	–	(61,556)	17,073	(44,483)
Conversion of convertible bonds	34	186,667	(38,915)	132,913	–	14,885	–	–	295,550	–	295,550
At 31 December 2013		1,277,888	–	1,027,637	–	380,341	11,219	13,050	2,710,135	306,968	3,017,103
At 1 January 2014		**1,277,888**	**–**	**1,027,637**	**–**	**380,341**	**11,219**	**13,050**	**2,710,135**	**306,968**	**3,017,103**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**106,417**	**–**	**106,417**	**(836)**	**105,581**
Other comprehensive income for the year:											
Cash flow hedges, net of tax		**–**	**–**	**–**	**(16,160)**	**–**	**–**	**–**	**(16,160)**	**–**	**(16,160)**
Exchange difference on translation of foreign operations		**–**	**–**	**–**	**–**	**(46,839)**	**–**	**–**	**(46,839)**	**(1,044)**	**(47,883)**
Total comprehensive income for the year		**–**	**–**	**–**	**(16,160)**	**(46,839)**	**106,417**	**–**	**43,418**	**(1,880)**	**41,538**
At 31 December 2014		**1,277,888**	**–**	**1,027,637**	**(16,160)**	**333,502**	**117,636**	**13,050**	**2,753,553**	**305,088**	**3,058,641**

* These reserve accounts comprise the consolidated reserves of HK$1,475,665,000 (2013: HK$1,432,247,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax:			
From continuing operations		**87,045**	(87,698)
From discontinued operations	13	**–**	14,424
Adjustments for:			
Finance costs	8	**34,753**	31,473
Foreign exchange loss		**51,213**	–
Share of losses of a joint venture	13	**–**	766
Share of (profits)/losses of associates		**(373,156)**	2,933
Loss on disposal of items of property, plant and equipment	7	**30**	377
Loss on disposal of a subsidiary	13	**–**	2,735
Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of a subsidiary	13	**–**	(18,270)
Impairment of other receivables	26	**3,133**	–
Impairment of investments in associates	7	**–**	59,845
Impairment of property, plant and equipment	7	**–**	6,185
Depreciation	16	**66,622**	51,354
Recognition of prepaid land lease payments	17	**3,355**	3,047
Recognition of other long-term assets	23	**809**	803
Amortisation of intangible assets	19	**7,391**	7,318
		(118,805)	75,292
(Increase)/decrease in inventories		**(2,329)**	313
Decrease/(increase) in trade receivables		**3,544**	(1,081)
Increase in other receivables and prepayments		**(4,142)**	(1,037)
(Decrease)/increase in trade payables		**(31,589)**	31,800
Decrease/(increase) in pledged bank deposits		**7,197**	(10,366)
Increase in other payables and accruals		**15,801**	60,062
Decrease in amount due from a related company		**15,465**	–
Increase in receipt in advance		**8,730**	7,335
Increase in amount due to a related company		**31,088**	–
Cash (used in)/generated from operations		**(75,040)**	162,318
Hong Kong profits tax paid		**(241)**	(2,183)
Overseas profit taxes paid		**(31)**	–
Net cash flows (used in)/generated from operating activities		**(75,312)**	160,135

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Net cash flows (used in)/generated from operating activities		**(75,312)**	160,135
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other payables and accruals		**6,871**	–
Purchases of items of property, plant and equipment	16	**(53,071)**	(53,361)
Acquisition of subsidiaries	39	**(3,299,093)**	(486,545)
Disposal of items of property, plant and equipment		**117**	2,251
Net proceeds from disposal of a subsidiary	13	**–**	128,655
Increase in amounts due from related companies		**–**	(18,959)
Net cash flows used in investing activities		**(3,345,176)**	(427,959)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(decrease) in amounts due to related companies		**1,120**	(10,505)
Decrease in an amount due to an associate		**–**	(18,872)
Increase in amount due from related companies		**(4,607)**	–
Decrease in other payables and accruals		**(10,092)**	–
New bank loans		**1,861,475**	6,360
Loans from a related company		**1,854,308**	–
Repayment of bank loans		**(15,313)**	(33,958)
Interest paid		**(4,972)**	(10,427)
Net cash flows generated from/(used in) financing activities		**3,681,919**	(67,402)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**261,431**	(335,226)
Cash and cash equivalents at beginning of year	28	**196,774**	530,475
Effect of foreign exchange rate changes, net		**(57,308)**	1,525
CASH AND CASH EQUIVALENTS AT END OF YEAR		**400,897**	196,774
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**400,897**	196,774
Cash and cash equivalents as stated in the statement of cash flows		**400,897**	196,774

Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**3**	15
Investments in subsidiaries	20	**541,988**	541,988
Total non-current assets		**541,991**	542,003
CURRENT ASSETS			
Amounts due from subsidiaries	20	**2,878,526**	995,835
Other receivables and prepayments	26	**1,080**	915
Cash and cash equivalents	28	**29,864**	15,169
Total current assets		**2,909,470**	1,011,919
CURRENT LIABILITIES			
Amounts due to subsidiaries	20	**412,266**	253,397
Other payables and accruals	30	**3,016**	1,218
Amount due to a related company	27	**19,985**	–
Total current liabilities		**435,267**	254,615
NET CURRENT ASSETS		**2,474,203**	757,304
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,016,194**	1,299,307
NON-CURRENT LIABILITIES			
Loan from a related company		**1,854,308**	–
Total non-current liabilities		**1,854,308**	–
Net assets		**1,161,886**	1,299,307
EQUITY			
Share capital	36	**1,277,888**	1,277,888
Reserves	38	**(116,002)**	21,419
Total equity		**1,161,886**	1,299,307

Approved on behalf of the board of directors:

Xue Jian
Director

Law Wing Chi, Stephen
Director

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and the principal place of business is 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, including material investments in associates engaged in steel and steel product manufacturing and trading. Its subsidiaries are principally engaged in the supply of heat, trading of iron ore and steel products and hotel operation.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

As of 31 December 2014, the Group's current liabilities exceeded its current assets by HK$84,078,000. Taking into consideration the receipt in advance of HK$138,239,000 in the current liabilities that will not result in cash outflow, the directors are of the opinion that the Group will have sufficient cash flows for its future operation (at least 12 months from the date of the consolidated financial statements) and concluded that a going concern basis of preparation was appropriate when preparing the Group's consolidated financial statements as of 31 December 2014 and for the year then ended.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRS*

[1] Effective from 1 July 2014

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKAS 1	*Presentation of Financial Statements – Disclosure Initiative*[2]
HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 10 and HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[5]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of HKFRSs*[1]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of HKFRSs*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The results of associates are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group, and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, to its residual value over the estimated useful life. The principal annual rates used for this purpose are as follows:

	Useful life *(years)*	**Depreciation rate**
Hotel properties		
– Leasehold land under financial leases	Lease term	Lease term
– Freehold land	Not depreciated	Not depreciated
– Building in Hong Kong	50	2%
– Building in Paris	10 – 94	1.06% – 10%
Heat supply facilities	18	5.28%
Buildings	18 – 27	3.33 – 5.28%
Leasehold improvements	2 – 5	20 – 50%
Motor vehicles	5	18 – 20%
Office equipment	5 – 6	15 – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing property, plant and equipment under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised on the straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The useful lives of intangible assets are shown as follows:

	Useful life *(years)*
Existing fee contract	18
Existing construction contracts	2
Operating rights	18

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or less category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the asset is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the asset is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, derivative financial instruments, amounts due to related companies, loans from related companies, interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the fair value of the convertible bonds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of fair value of the convertible bonds to the liability and equity components when the instruments are first recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other expenses.

Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services:

- revenue from heat energy supply is recognised when heat is provided;

- revenue from heat energy supply facilities connection is recognised on the stage of completion basis, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered; and

- hotel operation income is recognised upon the provision of the services and the utilisation by guests of the hotel facilities.

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is Renminbi ("RMB"). These financial statements are presented in Hong Kong dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain subsidiaries and associates of the Group are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into the presentation currency at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and the subsidiaries throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Depreciation of items of property, plant and equipment

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Useful lives are determined based on management's past experience with similar assets and estimated changes in technologies. If the estimated useful lives changed significantly, adjustment of depreciation will be provided in the future year. The carrying amount of property, plant and equipment at 31 December 2014 was approximately HK$4,489,893,000 (2013: approximately HK$1,292,607,000). More details are given in note 16.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of fair value less costs of disposal of the hotel operation cash-generating units to which the goodwill is allocated. Valuation technique adopted by the Group to assess the fair value is market approach, which used prices and other relevant information generated by market transactions involving identical and comparable group of assets and liabilities or business. The carrying amount of goodwill at 31 December 2014 was HK$329,917,000 (2013: Nil). More details are given in note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are disclosed in notes 16, 19 and 21.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2014 was HK$45,212,000 (2013: Nil). The amount of unrecognised tax losses at 31 December 2014 was HK$240,945,000 (2013: HK$154,333,000). Further details are contained in note 35 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2013: three) reportable operating segments as follows:

(a) the heat energy supply segment is engaged in the production and supply of heat energy, installation, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality of Tianjin;

(b) the steel manufacturing and trading segment holds significant interests in three associates, located in Shandong Province, engaged in steel and steel product manufacturing and trading; and

(c) the hotel operation segment is engaged in operation of hotel businesses in Hong Kong and France.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from this measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2014	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Hotel operation HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	**318,332**	**–**	**88,688**	**407,020**
Revenue from continuing operations				**407,020**
Segment results	**(1,983)**	**369,183**	**(145,121)**	**222,079**
Reconciliation:				
Interest income				**2,567**
Corporate and other unallocated expenses				**(137,489)**
Finance costs				**(112)**
Profit before tax from continuing operations				**87,045**

Year ended 31 December 2014	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Hotel operation HK$'000	Corporate and unallocated HK$'000	Total HK$'000
Other segment information					
Share of profits of associates	**2**	**373,154**	**–**	**–**	**373,156**
Impairment losses recognised in the statement of profit or loss	**3,133**	**–**	**–**	**–**	**3,133**
Depreciation and amortisation	**53,969**	**–**	**20,438**	**3,770**	**78,177**
Investments in associates	**283**	**2,357,383**	**–**	**–**	**2,357,666**
Capital expenditure (i)	**52,769**	**–**	**3,334,724**	**42**	**3,387,535**

(i) Capital expenditure consists of additions to property, plant and equipment including assets from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2013	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Hotel operation HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	323,586	432,556	1,348	757,490
Revenue from continuing operations				757,490
Segment results	30,355	(58,466)	(6,960)	(35,071)
Reconciliation:				
Interest income				5,829
Corporate and other unallocated expenses				(26,983)
Finance costs				(31,473)
Loss before tax from continuing operations				(87,698)

Year ended 31 December 2013	Heat energy supply HK$'000	Steel manufacturing and trading HK$'000	Hotel operation HK$'000	Corporate and unallocated HK$'000	Total HK$'000
Other segment information					
Share of losses of associates	16	2,917	–	–	2,933
Impairment losses recognised in the statement of profit or loss	6,185	59,845	–	–	66,030
Depreciation and amortisation	58,170	–	324	4,028	62,522
Investments in associates	282	1,989,316	–	–	1,989,598
Capital expenditure (i)	56,682	–	544,125	20	600,827

(i) Capital expenditure consists of additions to property, plant and equipment including assets from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2014	2013
	HK$'000	*HK$'000*
Asia other than Mainland China	**31,596**	433,904
Mainland China	**318,332**	323,586
France	**57,092**	–
	407,020	757,490

The revenue information of continuing operations above is based on the location of the customers.

(b) Non-current assets

	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**532,836**	544,484
Mainland China	**3,233,342**	2,873,984
France	**3,535,633**	–
	7,301,811	3,418,468

The non-current asset information from continuing operations above is based on the location of the assets and excludes available-for-sale investments and deferred tax assets.

Information about major customers

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue for the year (2013: HK$223,062,000 and HK$209,494,000, respectively was derived from sales by the steel manufacturing and trading segment to two single customers).

5. REVENUE

Revenue represents the value of sales of goods, heat energy supply income, heat energy supply facilities connection income, hotel operation income and other services income during the year. An analysis for the Group's revenue is as follows:

	2014	2013
	HK$'000	*HK$'000*
Heat energy supply income	**255,463**	225,558
Hotel operation income	**88,688**	1,348
Heat energy supply facilities connection income	**51,047**	88,741
Sale of goods	**–**	432,556
Other services income	**11,822**	9,287
	407,020	757,490

6. OTHER INCOME AND GAINS

	2014	2013
	HK$'000	*HK$'000*
Other income		
Bank interest income	**2,567**	5,829
Gains		
Government grants on value added tax ("VAT") refund	**6,276**	6,798
Government grants on heat energy supply	**–**	4,161
Others	**418**	–
	9,261	16,788

7. OTHER EXPENSES

	2014	2013
	HK$'000	*HK$'000*
Foreign exchange loss	**65,380**	1,499
Impairment of other receivables	**3,133**	–
Loss on disposal of items of property, plant and equipment	**30**	377
Impairment of investments in associates *(note 21)*	**–**	59,845
Impairment of property, plant and equipment	**–**	6,185
Others	**26**	2
	68,569	67,908

8. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	**13,529**	922
Fair value losses, net:		
Cash flow hedges (transfer from equity)	**1,239**	–
Interest on convertible bonds *(note 34)*	**–**	30,551
Interest on loans from related companies *(note 46)*	**20,826**	3,341
	35,594	34,814
Less: amounts capitalised in construction in progress	**(841)**	(3,341)
	34,753	31,473

9. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2014 HK$'000	2013 HK$'000
Cost of goods sold		–	419,918
Cost of heat energy supply		283,360	265,399
Cost of hotel operation		59,525	487
Depreciation	16	66,622	51,354
Recognition of prepaid land lease payments	17	3,355	3,047
Amortisation of intangible assets	19	7,391	7,318
Amortisation of other long-term assets	23	809	803
Employee benefit expense (excluding directors' and chief executive's remuneration)			
Wages, salaries and other benefits		20,648	16,239
Retirement scheme contributions	10	51	41
Loss on disposal of items of property, plant and equipment	7	30	377
Auditors' remuneration		5,500	5,200
Minimum lease payments under operating leases:			
Land and buildings		1,603	1,511
Fair value losses, net:			
Cash flow hedges (transfer from equity)		1,239	–
Bank interest income	6	(2,567)	(5,829)
Foreign exchange loss, net	7	65,380	1,499
Impairment of investments in associates	7	–	59,845
Impairment of other receivables	7	3,133	–
Impairment of property, plant and equipment	7	–	6,185

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014 HK$'000	2013 HK$'000
Fees	1,200	1,200
Other remuneration:		
Salaries and other benefits	10,940	9,555
Retirement scheme contributions	51	41
	10,991	9,596
Total remuneration	12,191	10,796

No share options were granted for the years ended 31 December 2014 and 2013.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration paid or payable to each of the six (31 December 2013: six) directors is as follows:

2014	**Fees** *HK$'000*	**Salaries and other benefits** *HK$'000*	**Retirement scheme contributions** *HK$'000*	**Total** *HK$'000*
Executive directors:				
Mr. Xue Jian	**200**	**3,400**	**17**	**3,617**
Mr. Law Wing Chi, Stephen	**200**	**2,340**	**17**	**2,557**
	400	**5,740**	**34**	**6,174**
Non-executive director:				
Mr. Hu Yishi	**200**	**5,200**	**17**	**5,417**
	200	**5,200**	**17**	**5,417**
Independent non-executive directors:				
Mr. Tam Sun Wing	**200**	**–**	**–**	**200**
Mr. Ng Ge Bun	**200**	**–**	**–**	**200**
Mr. He Yi	**200**	**–**	**–**	**200**
	600	**–**	**–**	**600**
Total	**1,200**	**10,940**	**51**	**12,191**

2013	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr. Xue Jian	200	2,600	11	2,811
Mr. Law Wing Chi, Stephen	200	1,755	15	1,970
	400	4,355	26	4,781
Non-executive director:				
Mr. Hu Yishi	200	5,200	15	5,415
	200	5,200	15	5,415
Independent non-executive directors:				
Mr. Tam Sun Wing	200	–	–	200
Mr. Ng Ge Bun	200	–	–	200
Mr. He Yi	200	–	–	200
	600	–	–	600
Total	1,200	9,555	41	10,796

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included three (2013: three) directors, details of whose remuneration are included above. Details of the remuneration for the year of the remaining two (2013: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,470**	1,168
Retirement scheme contributions	**45**	58
	1,515	1,226

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2014	2013
Nil to HK$1,000,000	**2**	2

11. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
	HK$'000	*HK$'000*
Current income tax:		
Hong Kong	**–**	2,183
Mainland China	**5,025**	–
Europe	**31**	–
Deferred income tax *(note 35)*	**(23,592)**	21,516
Income tax (credit)/expense for the year	**(18,536)**	23,699

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) of the estimated assessable profits arising in Hong Kong during the year.

The provision for PRC current income tax is based on the statutory rate of 25% (2013: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008.

The provision of French current income tax is based on the rate of 33.33% of the estimated assessable profits arising during the year.

The provision of Luxembourg's current income tax is based on the rate of 29.22% of the estimated assessable profits arising during the year.

11. INCOME TAX (CREDIT)/EXPENSE (continued)

A reconciliation of the tax (credit)/expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax (credit)/expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate for the years ended 31 December 2014 and 2013, are as follows:

2014	Mainland China		Hong Kong		France		Luxembourg		Others (i)		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax from continuing operations	**2,907**		**178,851**		**(129,247)**		**34,889**		**(355)**		**87,045**	
Tax at the statutory income tax rate	**727**	**25.0**	**29,510**	**16.5**	**(43,082)**	**33.33**	**10,195**	**29.22**	**-**	**-**	**(2,650)**	**(3.0)**
Expenses not deductible for tax	**2,738**	**94.2**	**18,373**	**10.3**	**4,809**	**(3.72)**	**-**	**-**	**-**	**-**	**25,920**	**29.8**
Share of profits from associates not subject to tax	**-**	**-**	**(61,570)**	**(34.4)**	**-**	**-**	**-**	**-**	**-**	**-**	**(61,570)**	**(70.7)**
Income not subject to tax	**-**	**-**	**(1,098)**	**(0.6)**	**-**	**-**	**(10,365)**	**(29.71)**	**-**	**-**	**(11,463)**	**(13.2)**
Deferred tax assets not recognised in prior years	**-**	**-**	**-**	**-**	**(880)**	**0.68**	**-**	**-**	**-**	**-**	**(880)**	**(1.0)**
Tax losses utilised from previous periods	**(2,164)**	**(74.4)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,164)**	**(2.5)**
Tax losses not recognised	**3,582**	**123.2**	**11,831**	**6.6**	**-**	**-**	**170**	**0.49**	**-**	**-**	**15,583**	**17.9**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	**-**	**-**	**18,657**	**10.4**	**-**	**-**	**-**	**-**	**-**	**-**	**18,657**	**21.4**
Minimum corporate income tax	**-**	**-**	**-**	**-**	**-**	**-**	**31**	**0.09**	**-**	**-**	**31**	**0.0**
Tax credit at the Group's effective rate	**4,883**	**168.0**	**15,703**	**8.8**	**(39,153)**	**30.29**	**31**	**0.09**	**-**	**-**	**(18,536)**	**(21.3)**

2013	Mainland China		Hong Kong		Others (i)		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Loss before tax from continuing operations	25,929		(106,273)		(7,354)		(87,698)	
Tax at the statutory income tax rate	6,482	25.0	(17,535)	16.5	–	–	(11,053)	12.6
Expenses not deductible for tax	120	0.5	3,410	(3.2)	–	–	3,530	(4.0)
Share of losses of associates	–	–	482	(0.5)	–	–	482	(0.5)
Tax losses not recognised	13,729	52.9	14,974	(14.1)	–	–	28,703	(32.7)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC associates	–	–	(146)	0.1	–	–	(146)	0.2
Prior year tax adjustment	–	–	2,183	(2.1)	–	–	2,183	(2.5)
Tax expense at the Group's effective rate	20,331	78.4	3,368	(3.2)	–	–	23,699	(27.0)

(i) Others represent the results of certain subsidiaries which are tax exempted companies incorporated in Bermuda and the British Virgin Islands.

12. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2014 includes a loss of HK$137,421,000 (2013: loss of HK$45,284,000) which has been dealt with in the financial statements of the Company (note 38).

13. DISCONTINUED OPERATION

On 17 June 2013, the Company entered into an agreement to dispose of the entire issued capital of Goalreach Investment Limited ("Goalreach") to a third party. Goalreach holds 100% equity interest in Burlingame (Chinese) Investment Limited ("BCIL"). Goalreach and BCIL acted solely as an investment holding company. BCIL has an investment in a joint venture, Shanghai Underground Centre Company Limited ("SUCCL"), which is engaged in the operation and management of shopping malls in Mainland China.

The disposal of Goalreach was completed on 26 June 2013.

The results of discontinued operation for the year are presented below:

	2013 *HK$'000*
Loss on disposal	(2,735)
Reclassification of translation reserve from other comprehensive income to the consolidated statement of profit or loss upon disposal of a subsidiary	18,270
Other expenses	–
Administrative expenses	(345)
Share of losses of a joint venture	(766)
Profit before tax from the discontinued operation	14,424
Loss recognised on the measurement to fair value	–
Income tax expense	–
Profit from the discontinued operation	14,424

The net cash flows incurred by Goalreach are as follows:

	2013 *HK$'000*
Operating activities	(345)
Net cash outflow	(345)

The translation reserve amounting to HK$18,270,000 relating to the disposal of a subsidiary is reclassified from other comprehensive income to statement of profit or loss for the year.

Earnings per share for the abovementioned discontinued operation are stated below:

	2013 *HK$'000*
Basic, from the discontinued operation	HK0.13 cents
Diluted, from the discontinued operation	HK0.11 cents

13. DISCONTINUED OPERATION (continued)

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2013
Earnings (HK$'000)	
Earnings attributable to ordinary equity holders of the Company from the discontinued operation	14,424
Number of shares ('000)	
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 15)*	10,968,469
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(note 15)*	12,778,880

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiary is as follow:

	2013 *HK$'000*
Cash consideration	130,000
Disposal related expenses paid	(1,317)
Cash and cash equivalents disposed of	(28)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiary	128,655

14. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of 12,778,880,000 (2013: 10,968,469,000) shares in issue during the year.

The calculation of the diluted earnings/(loss) per share amount is based on the earnings/(loss) for the year attributable to ordinary equity holders of the Company adjusted to reflect the interest on the convertible bonds, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the year ended 31 December 2013 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented. For the year ended 31 December 2014, there were no outstanding anti-dilutive instruments.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

	2014	2013
Profit/(loss) (HK$'000)		
Profit/(loss) attributable to ordinary equity holders of the Company		
From continuing operations	**106,417**	(119,284)
From discontinued operation	**–**	14,424
	106,417	(104,860)
Interest on convertible bonds *(note 8)*	**–**	30,551
Profit/(loss) attributable to ordinary equity holders of the Company before interest on convertible bonds	**106,417**	(74,309)*
Attributable to:		
Continuing operations	**106,417**	(88,733)*
Discontinued operation	**–**	14,424
	106,417	(74,309)*

	2014	2013
Number of shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**12,778,880**	10,968,469
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**–**	1,810,411*
Weighted average number of ordinary shares in issue during the year used in the diluted earnings/(loss) per share calculation	**12,778,880**	12,778,880*

* The effect of convertible bonds is ignored in the calculation of diluted loss per share, and the diluted loss per share is the same as the basic loss per share for the year ended 31 December 2013 since the deemed conversion of convertible bonds would result in a decrease in loss per share with an anti-dilutive effect. Therefore, the diluted loss per share amounts for the year ended 31 December 2013 are based on the loss for the year and loss attributable to continuing operations of HK$104,860,000 and HK$119,284,000 respectively, and the weighted average number of ordinary shares of 10,968,469,000 in issue for the year ended 31 December 2013.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Heat supply facilities HK$'000	Hotel properties HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
As at 1 January 2013	760,357	–	124,475	1,823	15,202	5,386	25,727	932,970
Additions	732	–	–	20	1,385	366	54,199	56,702
Acquisition of subsidiaries *(note 39)*	–	525,263	–	16,995	474	1,393	–	544,125
Transfers	38,321	–	–	–	–	–	(38,321)	–
Disposals	(3,319)	–	–	–	(656)	–	–	(3,975)
Exchange differences on translation	25,020	–	3,895	5	437	146	1,042	30,545
As at 31 December 2013	821,111	525,263	128,370	18,843	16,842	7,291	42,647	1,560,367
Additions	630	851	–	43	2,071	1,210	48,266	53,071
Acquisition of subsidiaries *(note 39)*	–	3,333,747	–	–	–	–	278	3,334,025
Transfers	15,434	–	21,948	–	–	151	(37,533)	–
Reclassification	(52,357)	–	51,666	–	171	520	–	–
Disposals	–	–	–	–	(207)	–	–	(207)
Exchange differences on translation	(3,028)	(120,695)	(105)	–	(39)	(10)	(106)	(123,983)
As at 31 December 2014	781,790	3,739,166	201,879	18,886	18,838	9,162	53,552	4,823,273
Accumulated depreciation								
As at 1 January 2013	(126,768)	–	(22,829)	(1,639)	(8,005)	(3,616)	–	(162,857)
Charge for the year	(41,956)	(61)	(6,292)	(306)	(2,228)	(511)	–	(51,354)
Disposals	755	–	–	–	592	–	–	1,347
Exchange differences on transaction	(3,841)	–	(808)	(5)	(246)	(99)	–	(4,999)
As at 31 December 2013	(171,810)	(61)	(29,929)	(1,950)	(9,887)	(4,226)	–	(217,863)
Charge for the year	(37,631)	(11,762)	(5,780)	(8,180)	(2,495)	(774)	–	(66,622)
Reclassification	6,839	–	(6,355)	–	–	(484)	–	–
Disposals	–	–	–	–	60	–	–	60
Exchange differences on translation	530	166	47	1	21	8	–	773
As at 31 December 2014	(202,072)	(11,657)	(42,017)	(10,129)	(12,301)	(5,476)	–	(283,652)
Impairment loss								
As at 1 January 2013	(42,386)	–	–	–	–	–	–	(42,386)
Provided for the year	(6,185)	–	–	–	–	–	–	(6,185)
Exchange differences on transaction	(1,326)	–	–	–	–	–	–	(1,326)
As at 31 December 2013	(49,897)	–	–	–	–	–	–	(49,897)
Exchange differences on translation	169	–	–	–	–	–	–	169
As at 31 December 2014	(49,728)	–	–	–	–	–	–	(49,728)
Net carrying amount								
As at 31 December 2014	**529,990**	**3,727,509**	**159,862**	**8,757**	**6,537**	**3,686**	**53,552**	**4,489,893**
As at 31 December 2013	599,404	525,202	98,441	16,893	6,955	3,065	42,647	1,292,607

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's lands are included in hotel properties. The analysis of lands is stated as follows:

Analysis of land:

	Group	
	2014	2013
	HK$'000	*HK$'000*
In Hong Kong, held on lease expiring over 50 years	**421,711**	422,183
In France, freehold	**2,353,920**	–
	2,775,631	422,183

Company

	Office equipment	**Total**
	HK$'000	*HK$'000*
Cost		
As at 1 January 2013	315	315
Additions	–	–
Disposals	–	–
As at 31 December 2013	315	315
Additions	–	–
Disposals	–	–
As at 31 December 2014	**315**	**315**
Accumulated depreciation		
As at 1 January 2013	(264)	(264)
Charge for the year	(36)	(36)
As at 31 December 2013	(300)	(300)
Charge for the year	(12)	(12)
As at 31 December 2014	**(312)**	**(312)**
Net carrying amount		
As at 31 December 2014	**3**	**3**
As at 31 December 2013	15	15

At 31 December 2014, certain of the Group's buildings with a net carrying amount of approximately HK$3,727,509,000 (2013: nil) were pledged to secure general banking facilities granted to the Group (note 32).

17. PREPAID LAND LEASE PAYMENTS

The prepaid land lease payments of the Group represent leasehold interests in state-owned land in Mainland China with rights to use the land under leases of 18 years.

	Group	
	2014	2013
	HK$'000	*HK$'000*
Carrying amount at 1 January	**42,570**	44,278
Recognised during the year	**(3,355)**	(3,047)
Exchange differences on translation	**(159)**	1,339
Carrying amount at 31 December	**39,056**	42,570
Current portion	**(3,370)**	(3,092)
Non-current portion	**35,686**	39,478

18. GOODWILL

	Total
	HK$'000
At 1 January 2013:	
Cost	49,105
Accumulated impairment	(49,105)
Net carrying amount	–
Cost at 1 January 2013, net of accumulated impairment	–
Impairment during the year	–
Exchange realignment	–
At 31 December 2013	–
At 31 December 2013:	
Cost	49,105
Accumulated impairment	(49,105)
Net carrying amount	–
Cost at 1 January 2014, net of accumulated impairment	–
Acquisition of a subsidiary *(note 39)*	342,309
Exchange realignment	(12,392)
At 31 December 2014	**329,917**
At 31 December 2014	
Cost	**391,248**
Accumulated impairment	**(48,939)**
Exchange realignment	**(12,392)**
Net carrying amount	**329,917**

18. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations (note 39) is allocated to the following cash-generating unit for impairment testing:

- Heat energy supply cash-generating unit; and
- French hotel cash-generating unit.

The carrying amount of the heat energy supply cash-generating unit is HK$48,939,000. As a result of the impairment tests in previous years, full impairment provision has been provided for the goodwill of the heat energy supply cash-generating unit of the Group.

The carrying amount of the French hotel cash-generating unit is HK$329,917,000. The recoverable amount of the French hotel cash-generating unit ("CGU") has been determined based on fair value less costs of disposal ("FVLCD"). In determining the FVLCD of the CGU, management has adopted the market approach, which used prices and other relevant information generated by market transactions involving identical and comparable group of assets and liabilities or business.

Assumptions were used in the FVLCD calculation of the CGU for 31 December 2014. The following describes each key assumption on which management has based its comparison to undertake impairment testing of goodwill:

– The CGU was sold with the benefit of vacant possession at the valuation date.

– This approach assumed that the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

– The use of this approach depends on the existence of an active market and the transparency of the transactions to the public.

The fair value measurement of the CGU is categorised within Level 3 of the fair value hierarchy.

19. OTHER INTANGIBLE ASSETS

Group	Existing fee contract HK$'000	Existing construction contracts HK$'000	Operating rights HK$'000	Software HK$'000	Total HK$'000
Cost					
As at 1 January 2013	289,518	6,058	129,737	–	425,313
Exchange differences on translation	9,059	190	4,060	–	13,309
	298,577	6,248	133,797	–	438,622
As at 31 December 2013					
Acquisition *(note 39)*	–	–	–	283	283
Additions	–	–	–	156	156
Exchange differences on translation	(1,011)	(21)	(453)	(13)	(1,498)
As at 31 December 2014	**297,566**	**6,227**	**133,344**	**426**	**437,563**
Amortisation					
As at 1 January 2013	(24,127)	(6,058)	(32,440)	–	(62,625)
Provided for the year	–	–	(7,318)	–	(7,318)
Exchange differences on translation	(755)	(190)	(1,125)	–	(2,070)
As at 31 December 2013	(24,882)	(6,248)	(40,883)	–	(72,013)
Provided for the year	–	–	(7,375)	(16)	(7,391)
Exchange differences on translation	85	21	106	1	213
As at 31 December 2014	**(24,797)**	**(6,227)**	**(48,152)**	**(15)**	**(79,191)**
Impairment					
As at 1 January 2013	(265,391)	–	–	–	(265,391)
Exchange differences on translation	(8,304)	–	–	–	(8,304)
As at 31 December 2013	(273,695)	–	–	–	(273,695)
Exchange differences on translation	926	–	–	–	926
As at 31 December 2014	**(272,769)**	**–**	**–**	**–**	**(272,769)**
Net carrying amount					
As at 31 December 2014	**–**	**–**	**85,192**	**411**	**85,603**
As at 31 December 2013	–	–	92,914	–	92,914

20. INVESTMENTS IN SUBSIDIARIES

	Company 2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**541,988**	541,988

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of approximately HK$2,878,526,000 (2013: HK$995,835,000) and HK$412,266,000 (2013: HK$253,397,000), respectively, are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries at 31 December 2014 are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of issued share/ registered capital attributable to the Company Direct %	Indirect %	Principal activities
Crown Value Limited	Corporation	Hong Kong	HK$1	100	–	Investment holding
Splendid Holdings S.à.r.l. (v)	Corporation	Luxembourg	EUR20,000	–	100	Investment holding
MCE OpCo HoldCo (i,ii)	Corporation	France	EUR6,973,155	–	100	Investment holding
MCE OpCo (i,ii)	Corporation	France	EUR8,835,915	–	100	Hotel operation
Splendid PropCo (ii,v)	Corporation	France	EUR44,000,010	–	100	Owner of hotel property
Leading Prospect Limited (v)	Corporation	British Virgin Islands	US$100	100	–	Investment holding
A6 Limited	Corporation	Hong Kong	HK$10,000	–	100	Owner of hotel property
Hotel de EDGE Limited	Corporation	Hong Kong	HK$100	–	100	Hotel operation
Hotel de EDGE Management Limited	Corporation	Hong Kong	HK$100	–	100	Hotel licence owner
Global Strategy International Limited (v)	Corporation	British Virgin Islands	US$100	100	–	Investment holding
Kai Yuan Capital Limited (formerly known as "Shinning Profit Limited")	Corporation	Hong Kong	HK$10,000	–	100	Money lending

20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 December 2014 are as follows: (continued)

Name of subsidiary	Legal form of business	Place of incorporation or registration/place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of issued share/ registered capital attributable to the Company Direct %	Indirect %	Principal activities
Fame Risen Development Limited	Corporation	Hong Kong	HK$20,000,000	100	–	Steel manufacturing and trading
Universal Yield Investments Limited (v)	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Deluxe (China) Limited	Corporation	Hong Kong	HK$1	–	100	Investment holding
Shanghai Mianwang Investment Consulting Co., Ltd. (上海綿旺投資諮詢有限公司) (i)	Wholly-owned foreign enterprise	The PRC/ Mainland China	US$3,000,000	–	100	Investment holding
Ever Profit Management Limited	Corporation	Hong Kong	HK$1,000,000	100	–	Service provision
Charter Best Investments Limited (v)	Corporation	British Virgin Islands	US$1	100	–	Investment holding
Spread International Group Limited (v)	Corporation	British Virgin Islands	US$100	–	100	Investment holding
Achieve (China) Limited	Corporation	Hong Kong	HK$1	–	100	Investment holding
Tianjin Heating Development Company Limited (天津市供熱發展有限公司) (i,iii)	Sino-foreign owned enterprise	The PRC/ Mainland China	RMB50,000,000	–	49	Heat energy supply in Tianjin, the PRC
Tianjin Baosheng Heating Investment Company Limited (天津市寶勝熱能投資有限公司) (i,iv)	Limited enterprise	The PRC/ Mainland China	RMB20,000,000	–	26.95	Heat energy supply in Tianjin, the PRC
Tianjin Meijiang Heating Company Limited (天津市梅江供熱有限公司) (i,iv)	Limited enterprise	The PRC/ Mainland China	RMB66,000,000	–	25.98	Heat energy supply in Tianjin, the PRC
ECFlyer.com Limited	Corporation	Hong Kong	HK$2	–	100	Investment holding
Time Park Limited	Corporation	Hong Kong	HK$100	–	100	Investment holding
Eland Success Limited (v)	Corporation	British Virgin Islands	US$1	100	–	Investment holding

20. INVESTMENTS IN SUBSIDIARIES (continued)

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) The Company acquired a hotel in France from third party in 2014. For this acquisition, the Company acquired MCE OpCo HoldCo and MCE OpCo and established Splendid PropCo to hold the hotel property. Further details of this acquisition are included in note 39 to the financial statements.

(iii) Tianjin Heating Development Company Limited ("Tianjin Heating") is accounted for as a subsidiary of the Group because the Group has the power to control the board of directors and to govern the financial and operating policies of Tianjin Heating. Through an entrustment agreement dated 30 June 2008 entered into between one wholly-owned subsidiary of the Group and a shareholder of Tianjin Heating who holds a 5% equity interest in Tianjin Heating, the Group has the right to exercise all the power as a shareholder of a 5% equity interest, and the Group is entitled to an extra right to appoint one director to the board of directors of Tianjin Heating. Together with the Group's original right to appoint directors to the board of directors of Tianjin Heating as the shareholder holding a 49% equity interest, the Group is entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating. Tianjin Heating applies the principle of simple majority to pass a board resolution.

(iv) Tianjin Baosheng Heating Investment Company Ltd. ("Baosheng Heating") and Tianjin Meijiang Heating Company Ltd. ("Meijiang Heating") are subsidiaries of Tianjin Heating, a non-wholly-owned subsidiary of the Group, and accordingly are accounted for as subsidiaries by virtue of the Group's control over them.

(v) No audited financial statements have been prepared for these entities for the year ended 31 December 2014, as these entities were not subject to any statutory audit requirement under relevant rules and regulations in their jurisdiction of incorporation.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2014	2013
	%	%
Percentage of equity interest held by non-controlling interests:		
Tianjin Heating	**51.00**	51.00
Baosheng Heating	**73.05**	73.05
Meijiang Heating	**74.02**	74.02

	2014	2013
	HK$'000	*HK$'000*
(Loss)/profit for the year allocated to non-controlling interests:		
Tianjin Heating	**(5,205)**	(1,922)
Baosheng Heating	**4,680**	20,608
Meijiang Heating	**(311)**	(10,799)
	(836)	7,887
Translation reserve for the year allocated to non-controlling interests:		
Tianjin Heating	**(276)**	2,297
Baosheng Heating	**(264)**	2,225
Meijiang Heating	**(504)**	4,664
	(1,044)	9,186
Accumulated balances of non-controlling interests at the reporting dates:		
Tianjin Heating	**69,217**	74,697
Baosheng Heating	**88,563**	84,147
Meijiang Heating	**147,308**	148,124
	305,088	306,968

20. INVESTMENTS IN SUBSIDIARIES (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2014	**Tianjin Heating** *HK$'000*	**Baosheng Heating** *HK$'000*	**Meijiang Heating** *HK$'000*
Revenue	**132,257**	**64,375**	**119,679**
Total expenses	**(142,462)**	**(57,968)**	**(120,100)**
(Loss)/profit for the year	**(10,205)**	**6,407**	**(421)**
Other comprehensive income for the year	**(541)**	**(361)**	**(679)**
Total comprehensive (loss)/income for the year	**(10,746)**	**6,046**	**(1,100)**
Current assets	**86,943**	**57,509**	**212,269**
Non-current assets	**583,152**	**166,275**	**145,212**
Current liabilities	**(464,135)**	**(62,870)**	**(132,371)**
Non-current liabilities	**(70,241)**	**(39,678)**	**(26,086)**
Net cash flows generated from/(used in) operating activities	**72,920**	**24,871**	**1,920**
Net cash flows used in investing activities	**(23,699)**	**(13,537)**	**(9,257)**
Net cash flows generated from/(used in) financing activities	**2,409**	**(6,310)**	**(17,030)**
Net increase/(decrease) in cash and cash equivalents	**51,630**	**5,024**	**(24,367)**

2013	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	121,889	104,224	113,028
Total expenses	(125,658)	(76,013)	(127,623)
(Loss)/profit for the year	(3,769)	28,211	(14,595)
Other comprehensive income for the year	4,504	3,046	6,305
Total comprehensive income/(loss) for the year	735	31,257	(8,290)
Current assets	57,398	50,436	231,548
Non-current assets	586,242	172,779	140,824
Current liabilities	(429,388)	(65,610)	(145,545)
Non-current liabilities	(67,786)	(42,415)	(26,703)
Net cash flows generated from operating activities	37,534	51,261	5,865
Net cash flows (used in)/generated from investing activities	(33,879)	(15,368)	23
Net cash flows generated from/(used in) financing activities	10,675	(8,773)	2,846
Net increase in cash and cash equivalents	14,330	27,120	8,734

21. INVESTMENTS IN ASSOCIATES

	Group 2014 HK$'000	2013 HK$'000
Share of net assets	**2,752,432**	2,385,708
Provision for impairment (iii)	**(394,766)**	(396,110)
	2,357,666	1,989,598

Particulars of all associates are as follows:

Name of associate	Legal form of business	Place of incorporation/ registration and business	Nominal value of registered capital	Percentage of ownership interest attributable to the Group Directly	Indirectly	Principal activities
天津市梅江供熱運行管理有限公司 Tianjin Meijiang Heat Supply Operating Management Company Limited (i)	Limited enterprise	The PRC/ Mainland China	RMB2,000,000	–	21%	Sale of heating materials
日照鋼鐵有限公司 Rizhao Steel Co., Limited ("Rizhao Steel") (ii)	Limited enterprise	The PRC/ Mainland China	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照型鋼有限公司 Rizhao Medium Section Mill Co., Limited ("Rizhao Mill") (ii)	Limited enterprise	The PRC/ Mainland China	RMB100,000,000	–	30%	Manufacturing and trading of steel products
日照鋼鐵軋鋼有限公司 Rizhao Steel Wire Co., Limited ("Rizhao Wire") (ii)	Limited enterprise	The PRC/ Mainland China	RMB80,000,000	–	25%	Manufacturing and trading of steel products

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

21. INVESTMENTS IN ASSOCIATES (continued)

(ii) A proposed production capacity adjustment programme

Pursuant to the announcement dated 28 December 2012, the Group received a notice from Rizhao Steel Holding Group Company Limited (the parent company of the three associates) informing the Group that it may undergo a production adjustment programme to adjust the annual steel production capacity (the "Programme") (which is largely undertaken by the three associates). The Programme will be carried out in phases following the full and satisfactory settlement of matters arising from the Programme during the course of its implementation (including production equipment allocation, redundancy arrangement, subsidies and compensation policies, safety, stability issues, etc.) with the assistance of the Shandong Provincial Government. If the Programme is implemented, the annual steel production capacity of Rizhao Steel Holding Group Company Limited may be adjusted from approximately 12 million tonnes to 5 million tonnes by 2015. The settlement method of the aforementioned matters and the implementation, procedures and timing of the Programme are yet to be determined and are subject to further negotiations and liaisons between Rizhao Steel Holding Group Company Limited and the relevant government authorities. In this regard, the impairment assessment on the investment in the three associates mentioned in (iii) below did not take into consideration the effects of the Programme as the implementation of aforementioned Programme has not been committed.

(iii) Provision for impairment

Investments in Rizhao Steel, Rizhao Mill, and Rizhao Wire were acquired through the acquisition of a 100% interest in Fame Risen Development Limited in May 2009, which belongs to the steel manufacturing and trading segment.

Due to the continuous recession in the steel industry and operation losses from these investments in associates, management of the Group is of the opinion that there was an impairment indicator for long-term assets of each associate and the Group's investments in the associates as of 31 December 2013.

For impairment testing of long-term assets of each associate, long-term assets within each associate are considered an individual cash-generating unit ("CGU"). The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on its individual financial budgets covering a five-year period approved by senior management of the associates. According to the impairment test result, the recoverable amount of each individual CGU is lower than its respective carrying amount on consolidation level (taking into consideration the effect for the fair value adjustments on long-term assets of the associates at the acquisition date), an impairment loss was provided for long-term assets of the associates, and has been recorded in share of losses of the associates with an amount of HK$45,392,000 for the year ended 31 December 2013.

For impairment testing of investments in the associates, each investment in the three associates is considered an individual CGU. The recoverable amount of the CGU has been determined based on fair value less costs to sell by using the income approach (discounted cash flow method in particular). As a result, according to the impairment test result used by the Group, the recoverable amount of each individual CGU is lower than its respective carrying amount, a provision for impairment of HK$59,845,000 was recorded in statement of profit or loss for the year ended 31 December 2013. As at 31 December 2013, the provision for impairments of investments in associates was HK$396,110,000.

As of 31 December 2014, management of the Group is of the opinion that no additional impairment is required for long term assets of each associate and the Group's investments in the associates.

21. INVESTMENTS IN ASSOCIATES (continued)

Rizhao Steel, Rizhao Mill and Rizhao Wire, are considered material associates of the Group, and are accounted for using the equity method.

The following table illustrates the summarised financial information of Rizhao Steel, Rizhao Mill and Rizhao Wire adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

Rizhao Steel	**2014**	2013
	HK$'000	*HK$'000*
Current assets	**16,016,885**	12,465,639
Non-current assets	**16,197,143**	13,247,589
Current liabilities	**(24,991,376)**	(21,277,044)
Non-current financial liabilities, excluding trade and other payables and provisions	**(1,521,105)**	(254,378)
Non-current liabilities	**(1,845,246)**	(943,252)
Net assets	**3,856,301**	3,238,554
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**30%**	30%
Share of net assets of the associate	**1,156,890**	971,566
Revenues	**41,373,386**	46,429,292
Profit/(Loss) for the year	**625,950**	(118,967)
Total comprehensive income/(loss) for the year	**617,747**	(30,550)

Rizhao Mill	**2014**	2013
	HK$'000	*HK$'000*
Current assets	**6,487,613**	8,183,635
Non-current assets	**446,041**	475,880
Current liabilities	**(6,000,293)**	(7,803,105)
Non-current financial liabilities, excluding trade and other payables and provisions	**(188,738)**	(189,379)
Non-current liabilities	**(30,363)**	(33,080)
Net assets	**714,260**	633,951
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**30%**	30%
Share of net assets of the associate	**214,278**	190,185
Revenues	**4,746,173**	5,624,157
Profit for the year	**82,093**	86,893
Total comprehensive income for the year	**80,309**	100,519

21. INVESTMENTS IN ASSOCIATES (continued)

Rizhao Wire	2014 HK$'000	2013 HK$'000
Current assets	**26,270,008**	24,224,828
Non-current assets	**4,440,320**	4,818,316
Current liabilities	**(23,344,785)**	(23,244,707)
Non-current financial liabilities, excluding trade and other payables and provisions	**(1,330,967)**	(203,503)
Non-current liabilities	**(510,652)**	(700,235)
Net assets	**5,523,924**	4,894,699
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**25%**	25%
Share of net assets of the associate	**1,380,981**	1,223,675
Revenues	**39,407,261**	44,455,624
Profit for the year	**642,964**	26,820
Total comprehensive income for the year	**629,226**	153,243

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2014 HK$'000	2013 HK$'000
Share of the associates' profit/(loss) for the year	**2**	(16)
Share of the associates' other comprehensive (loss)/income	**(1)**	9
Share of the associates' total comprehensive income/(loss)	**1**	(7)
Aggregate carrying amount of the Group's investments in the associates	**283**	282

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group 2014 HK$'000	2013 HK$'000
Unlisted equity investments – at cost		
Balance at 1 January	**6,635**	6,448
Exchange differences on translation	**(22)**	187
Balance at 31 December	**6,613**	6,635
Impairment loss		
Balance at 1 January	**(720)**	(713)
Exchange differences on translation	**2**	(7)
Balance at 31 December	**(718)**	(720)
Carrying value		
At 1 January	**5,915**	5,735
At 31 December	**5,895**	5,915

As at 31 December 2014, the Group's available-for-sale investments included a 16% equity interest in 天津市津熱物流有限公司 (Tianjin Jinre Logistics Company Limited, "Tianjin Jinre Logistics") and a 4% equity interest in 天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited, "Tianjin Jinbin"). These unlisted equity instruments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

23. OTHER LONG-TERM ASSETS

Other long-term assets of the Group represent the prepaid lease payment for the user right of a building with leases of eight years.

	Group 2014 HK$'000	2013 HK$'000
Carrying amount at 1 January	**4,686**	5,333
Recognised during the year	**(809)**	(803)
Exchange differences on translation	**(19)**	156
Carrying amount at 31 December	**3,858**	4,686
Current portion	**(812)**	(815)
Non-current portion	**3,046**	3,871

24. INVENTORIES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Raw materials	**9,087**	5,317
Consumables	**315**	445
	9,402	5,762
Provision for impairment of inventories	**–**	
	9,402	5,762

25. TRADE RECEIVABLES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**22,512**	1,798

For heat energy supply income and heat energy supply facilities connection income, the Group generally receives the relevant fees in advance. Hotel operation revenue is normally settled by cash or credit card. For travel agents and certain corporate customers, the credit period is generally one month. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Within 1 month	**16,063**	796
1 to 3 months	**5,571**	87
Over 3 months	**878**	915
	22,512	1,798

No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are considered fully recoverable.

26. OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**3,283**	3,052	**–**	915
Deposits and other receivables	**27,011**	16,183	**1,080**	–
	30,294	19,235	**1,080**	915
Impairment of other receivables	**(3,147)**	–	**–**	–
	27,147	19,235	**1,080**	915

The movements in provision for impairment of other receivables are as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**–**	1,200	**–**	–
Impairment losses recognised/(written off)	**3,133**	(1,200)	**–**	–
Exchange difference on translation	**14**	–	**–**	–
	3,147	–	**–**	–

The provision for impairment of other receivables is a full provision for individually impaired other receivables of HK$3,147,000 (2013: Nil), of which the Group had assessed the recoverability and concluded that the chance of recovering the balance was low. Accordingly, full provision for impairment was made.

Apart from the impairment provision on the individually impaired other receivables as detailed above, management believes that no impairment allowance is necessary in respect of the remaining other receivables and prepayments as there has not been a significant change in credit quality and the remaining balances are considered fully recoverable.

27. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from related companies

	Group 2014 HK$'000	2013 HK$'000
Tianjin Jinbin (ii, iii)	**144,308**	144,798
Tianjin Jinre Co., Ltd. (i)	**122,443**	121,358
Tianjin Heating Supply Co., Ltd. (ii)	**2,962**	2,972
Tianjin Jinre Logistics (ii)	**–**	18,266
Other related companies (ii)	**8,113**	1,780
	277,826	289,174
Impairment provision	**(144,308)**	(144,798)
	133,518	144,376

Amounts due to related companies

	Group 2014 HK$'000	2013 HK$'000
Tianjin Jinre Construction and Development Co., Ltd. (ii)	**40,849**	40,988
Tianjin Jinre Logistics (ii)	**31,088**	–
Most Honor Limited (iv)	**19,985**	–
Tianjin Jinbin (iii)	**119**	3,297
Other related companies (ii)	**4,437**	–
	96,478	44,285

(i) Tianjin Jinre Co., Ltd. is a non-controlling shareholder of a subsidiary of the Group.

(ii) These related companies are under significant influence of a non-controlling shareholder of a subsidiary of the Group.

(iii) In 2010, the Group assessed the recoverability of RMB113,840,000 (equivalent HK$144,308,000) due from Tianjin Jinbin and concluded that the chance of recovering the balance was low. Accordingly, full provision for impairment was made.

(iv) Most Honor Limited, a company wholly-owned by Mr. Du Shuang Hua, who in turn is a shareholder deemed to be interested in approximately 5.54% of the issued share capital of the Company.

Except for purchase of coal from Tianjin Jinre Logistics, these amounts are not trade in nature and are unsecured, interest-free and repayable on demand.

Apart from the impairment provision on amounts due from related companies in (iii), management believes that no further impairment allowance is necessary in respect of the remaining amounts due from related companies because there has not been a significant change in credit quality and the remaining balances are still considered fully recoverable.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**404,066**	207,140	**29,864**	15,169
Pledged deposits for bills payable *(note 29)*	**(3,169)**	(10,366)	**–**	–
Cash and cash equivalents	**400,897**	196,774	**29,864**	15,169

As at 31 December 2014, pledged bank deposits of HK$3,169,000 (2013: HK$10,366,000) are guaranteed for issuing bank accepted bills payable (note 29).

As at 31 December 2014, the cash and bank balances of the Group denominated in RMB amounted to HK$139,835,000 (2013: HK$75,617,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months in Hong Kong and Mainland China depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of these assets approximate to their fair values.

29. TRADE AND BILLS PAYABLES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Trade payables	**39,845**	38,766
Bills payable	**6,338**	20,733
	46,183	59,499

The trade payables are non-interest-bearing and are normally settled on 90-day terms. Trade payables have no significant balances with ageing over one year. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The carrying amount of trade payables approximates to their fair value.

29. TRADE AND BILLS PAYABLES (continued)

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Within 1 month	**3,189**	998
1 to 3 months	**16,043**	2,823
Over 3 months	**20,613**	34,945
	39,845	38,766

As at 31 December 2014, the Group's bills payable are secured by the pledge of certain of the Group's time deposits amounting to HK$3,169,000 (2013: HK$10,366,000).

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**174,105**	188,789	**–**	–
Accruals	**47,262**	6,817	**3,016**	1,219
	221,367	195,606	**3,016**	1,219

Other payables are non-interest-bearing and have no significant balances with ageing over one year.

31. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2014 Liabilities *HK$'000*
Interest rate swaps	**24,240**
Portion classified as non-current	**(18,016)**
Current portion	**6,224**

Interest rate swaps – cash flow hedges

At 31 December 2014, the Group had an interest rate swap agreement in place with a notional amount of EUR175,000,000 whereby it received interest at a variable rate equal to the Europe Interbank Offered Rate ("EURIBOR") on the notional amount and paid interest at a fixed rate of 0.516%.

The swap is designated as a hedging instrument to hedge the exposure to changes in future cash outflows of interests arising from its 5-year secured loan (note 32). The secured loan and the interest rate swap agreement have the same critical terms. The hedge of the interest rate swap was assessed to be effective, and a net loss of HK$16,160,000 was included in the hedging reserve as follows:

	2014 *HK$'000*
Total fair value loss included in the hedging reserve	**25,479**
Deferred tax on fair value loss	**(8,493)**
Reclassified from other comprehensive income and recognised in the statement of profit or loss *(note 8)*	**(1,239)**
Deferred tax on reclassification to profit or loss	**413**
Net loss on cash flow hedges	**16,160**

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2014			2013		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Bank loans-secured (ii)	**One month HIBOR+2.36%**	**2015**	**12,000**			–
Bank loans-secured			**–**	6.60	2014	6,360
			12,000			6,360
Non-current						
Other secured bank loans (ii)	**One month HIBOR+2.36%**	**24 Mar 2020**	**149,000**			–
						–
Other loans-secured Three months EURIBOR+2.2% (i)*	**0.516%+2.2%**	**14 Oct 2019**	**1,630,245**			–
			1,779,245			–
			1,791,245			6,360

* Includes the effects of a related interest rate swap as further detailed in note 31 to the financial statements.

	Group 2014 HK$'000	2013 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**12,000**	6,360
In the second year	**12,000**	–
In the third to fifth years, inclusive	**1,666,245**	–
Beyond five years	**101,000**	–
	1,791,245	6,360

(i) On 13 October 2014, the Group borrowed EUR 175,000,000 loans from Societe Generale Corporate & Investment Banking which will be repaid on 14 October 2019 bearing interest at three months EURIBOR plus 2.2%. The loans were pledged by the Group's hotel property situated in France, which had an aggregate carrying value of HK$ 3,205,037,000 as at 31 December 2014.

(ii) On 27 March 2014, the Group borrowed HK$170,000,000 from The Hong Kong and Shanghai Banking Corporation Limited which will be repayable by 71 equal monthly instalments of HK$1,000,000, commencing one month after drawdown plus a final instalment of HK$99,000,000. The Group had repaid HK$9,000,000 as of 31 December 2014. The loans were pledged by the Group's hotel property situated in Hong Kong, which had an aggregate carrying value of HK$522,472,000 as at 31 December 2014.

33. LOANS FROM RELATED COMPANIES

	2014 **HK$'000**	2013 HK$'000
Most Honor Limited (i)	**1,854,308**	–
Tianjin Jinre Co., Ltd (ii)	**118,365**	120,463
	1,972,673	120,463

(i) The amount is a loan from Most Honor Limited, a company wholly-owned by Mr. Du Shuang Hua, who in turn is a shareholder deemed to be interested in approximately 5.54% of the issued share capital of the Company. The loan was denominated in US dollars with an amount of US$239,265,600 (equivalent to approximately HK$1,854,308,000), which is secured by the shares of Crown Value, bears interest at 4% per annum and is repayable after two years.

(ii) The amount is a loan from Tianjin Jinre Co., Ltd., a non-controlling shareholder of a subsidiary of the Group, which is unsecured, bears interest at 8% per annum and is repayable on demand.

34. CONVERTIBLE BONDS

On 19 December 2011, the Company entered into a convertible bond subscription agreement with Ga Leung Investment Company Limited, a third party, to issue to the latter HK$280,000,000 of convertible bonds, which can be convertible at the option of the bondholder into 1,866,666,666 ordinary shares of the Company (i.e., the conversion price is HK$0.15 per share) within the period ending on the second anniversary of the date of issuance of the convertible bonds (the "Maturity Date"). The bonds carry interest at a rate of 3.5% per annum on the outstanding principal amount and is payable yearly. On 30 December 2011, the convertible bonds were issued to Ga Leung Investment Company Limited.

The convertible bonds are considered a compound financial instrument and the fair value of its liability component was estimated at the issuance date using a prevailing market interest rate for a similar bond without a conversion option. The residual amount (i.e., the fair value of the compound financial instrument as a whole less the fair value of the liability component) is assigned as an equity component and is included in shareholders' equity.

The convertible bonds issued on 30 December 2011 were split upon issuance into the liability and equity components, and the movements of the liability components are as follows:

	Group and Company 2013 *HK$'000*
Liability component as at 1 January	266,171
Interest charge	30,551
Interest paid	(9,505)
Exchange differences on translation	8,333
Conversion of convertible bonds	(295,550)
Liability component at 31 December	–

On 20 December 2013, Ga Leung Investment Company Limited converted all the convertible bonds with a principal amount of HK$280,000,000 for 1,866,666,666 shares.

35. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Group – 2014

Deferred tax liabilities

	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Deferred revenue *HK$'000*	Withholding tax *HK$'000*	Others *HK$'000*	Total *HK$'000*
As at 1 January 2014	**100,103**	**118,516**	**1,198**	**–**	**219,817**
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 11)*	**(628)**	**(355)**	**18,657**	**6,909**	**24,583**
Acquisition of subsidiaries *(note 39)*	**365,553**	**–**	**–**	**–**	**365,553**
Exchange differences on translation	**(13,373)**	**(403)**	**79**	**(129)**	**(13,826)**
Gross deferred tax liabilities at 31 December 2014	**451,655**	**117,758**	**19,934**	**6,780**	**596,127**

Deferred tax assets

	Cash flow hedges *HK$'000*	Losses available for offsetting against future taxable profits *HK$'000*	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Impairment of items of property, plant and equipment *HK$'000*	Others *HK$'000*	Total *HK$'000*
As at 1 January 2014	**–**	**–**	**18,769**	**8,621**	**–**	**27,390**
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year *(note 11)*	**–**	**46,061**	**(399)**	**(525)**	**3,038**	**48,175**
Deferred tax credited to other comprehensive income	**8,080**	**–**	**–**	**–**	**–**	**8,080**
Exchange differences on translation	**–**	**(849)**	**(69)**	**(32)**	**14**	**(936)**
Gross deferred tax assets at 31 December 2014	**8,080**	**45,212**	**18,301**	**8,064**	**3,052**	**82,709**

35. DEFERRED TAX (continued)

Group – 2014 (continued)

Deferred tax assets (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$'000
Deferred tax assets recognised in the consolidated statement of financial position at 31 December 2014	**53,292**
Net deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2014	**566,710**

Group – 2013

Deferred tax liabilities

	Fair value adjustments from acquisition of subsidiaries *HK$'000*	Deferred revenue *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
As at 1 January 2013	38,189	102,985	1,305	142,479
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 11)*	6,348	12,127	(146)	18,329
Acquisition of subsidiaries *(note 39)*	54,277	–	–	54,277
Exchange differences on translation	1,289	3,404	39	4,732
Gross deferred tax liabilities at 31 December 2013	100,103	118,516	1,198	219,817

35. DEFERRED TAX (continued)

Group – 2013 (continued)

Deferred tax assets

	Fair value adjustments from acquisition of subsidiaries	Impairment of items of property, plant and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2013	20,776	8,919	29,695
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 11)*	(2,618)	(569)	(3,187)
Exchange differences on translation	611	271	882
Gross deferred tax assets at 31 December 2013	18,769	8,621	27,390

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

	HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2013	192,427

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Tax losses arising in Hong Kong (i)	**112,645**	40,943
Tax losses arising in Mainland China (ii)	**127,718**	113,390
Tax losses arising in Luxembourg (iii)	**582**	–
Impairment provision of amounts due from related companies	**144,308**	144,798
	385,253	299,131

35. DEFERRED TAX (continued)

(i) The Group has tax losses arising in Hong Kong of HK$112,645,000 (2013: HK$40,943,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

(ii) The Group has tax losses arising in Mainland China of HK$127,718,000 (2013: HK$113,390,000) that will expire in one to five years for offsetting against future taxable profits of the entities.

(iii) The Group has tax losses arising in Luxembourg of HK$582,000 that are available indefinitely for offsetting against future taxable profits of the entities in which the losses arose.

Deferred tax assets have not been recognised in respect of the above tax losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. In this regard, for the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those associates established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

36. ISSUED CAPITAL

	Number of shares		Issued capital	
	2014	2013	**2014**	2013
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At beginning of year	**20,000,000**	20,000,000	**2,000,000**	2,000,000
Increase of authorised share capital	**–**	–	**–**	–
At end of year	**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid				
At beginning of year	**12,778,880**	10,912,213	**1,277,888**	1,091,221
Conversion of convertible bonds (i)	**–**	1,866,667	**–**	186,667
At end of year	**12,778,880**	12,778,880	**1,277,888**	1,277,888

(i) On 20 December 2013, the Company issued 1,866,666,666 shares of HK$0.10 each in respect of the conversion of the convertible bonds with a principal amount of HK$280,000,000 held by Ga Leung Investment Company Limited (note 34).

37. SHARE OPTION SCHEME

Pursuant to a resolution passed on 17 May 2012 (the "Effective Date"), the Company adopted a new share option scheme (the "2012 Option Scheme"), which is for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest. Under the 2012 Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the 2012 Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the 2012 Option Scheme and any other share option schemes of the Company shall not exceed 30% of the share in issue from time to time. The subscription price for shares in respect of any options granted under the 2012 Option Scheme will be a price determined by the board of the directors of the Company, in its absolute discretion, but in any case will not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer, which must be a trading day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant, provided that for the purpose of calculating the subscription price, where the shares have been listed on the Stock Exchange for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before such listing. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

37. SHARE OPTION SCHEME (continued)

No eligible participant shall be granted an option if the total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the proposed grant to such eligible participant would exceed 1% of the shares of the Company for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in a general meeting with the proposed eligible participant and his associates abstaining from voting.

An option may be exercised in accordance with the terms of the 2012 Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than 10 years from the date of grant of the option and subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option.

Up the date of this report, the Company has not granted any share options under the 2012 Option Scheme.

38. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

Company

	Note	Share premium HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013		894,724	7,105	(984,284)	(82,455)
Total comprehensive loss for the year		–	1,360	(45,284)	(43,924)
Conversion of convertible bonds	34	132,913	14,885	–	147,798
At 31 December 2013		1,027,637	23,350	(1,029,568)	21,419
Total comprehensive loss for the year		–	–	(137,421)	(137,421)
At 31 December 2014		**1,027,637**	**23,350**	**(1,166,989)**	**(116,002)**

39. BUSINESS COMBINATION

2014 acquisition

On 13 October 2014, the Group acquired Paris Marriott Hotel Champs-Elysées (comprising the entire issued share capital of MCE OpCo HoldCo and its subsidiary MCE OpCo, and property being used in Paris for the hotel operation) (the "Paris Target Group") at the consideration of EUR344,597,934 (equivalent to approximately HK$3,379,112,000). The acquisition was made as part of the Group's strategy to expand the business portfolios in order to expand the revenue stream and to explore property investment opportunities to strengthen its asset quality. The purchase consideration for the acquisition was in the form of cash, with EUR344,597,934 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of the Paris Target Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment	3,334,025
Intangible assets	283
Cash and bank balances	80,019
Inventories	1,311
Trade receivables	24,258
Prepayments and other receivables	6,903
Trade payables	(18,274)
Accruals and other payables	(26,169)
Deferred tax liabilities	(365,553)
Total identifiable net assets at fair value	3,036,803
Goodwill on acquisition	342,309
Satisfied by cash	3,379,112

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$24,258,000 and HK$4,823,000, respectively.

The Group incurred transaction costs of HK$162,925,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

39. BUSINESS COMBINATION (continued)

2014 acquisition (continued)

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(3,379,112)
Cash and bank balances acquired	80,019
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,299,093)
Transaction costs of the acquisition included in cash flows from operating activities	(162,925)
	(3,462,018)

Since the acquisition, the Paris Target Group contributed HK$57,092,000 to the Group's turnover and HK$41,089,000 to the consolidated profit for the year ended 31 December 2014.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$613,710,000 and HK$254,332,000 respectively.

2013 acquisition

On 20 December 2013, the Group through its wholly-owned subsidiary, Leading Prospect Limited, acquired a 100% interest in A6 Limited, Hotel de EDGE Limited and Hotel de EDGE Management Limited (the "HK Target Group") from third parties. The HK Target Group is engaged in hotel operation. The acquisition was made as part of the Group's strategy to expand the business portfolios in order to expand the revenue stream and to explore property investment opportunities to strengthen its asset quality. The purchase consideration for the acquisition was in the form of cash, with HK$488,000,000 paid at the acquisition date.

39. BUSINESS COMBINATION (continued)

2013 acquisition (continued)

The fair values of the identifiable assets and liabilities of the HK Target Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment	544,125
Cash and bank balances	1,455
Inventories	344
Trade receivables	717
Prepayments and other receivables	533
Trade payables	(1,200)
Accruals and other payables	(2,651)
Receipt in advance	(805)
Tax payable	(241)
Deferred tax liabilities	(54,277)
Total identifiable net assets at fair value	488,000
Goodwill on acquisition	–
Satisfied by cash	488,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$717,000 and HK$533,000, respectively.

The Group incurred transaction costs of HK$7,242,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(488,000)
Cash and bank balances acquired	1,455
Net outflow of cash and cash equivalents included in cash flows from investing activities	(486,545)
Transaction costs of the acquisition included in cash flows from operating activities	(7,242)
	(493,787)

40. PENSION SCHEME AND OTHER RETIREMENT BENEFITS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its qualifying employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "Scheme") operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total pension cost charged to the consolidated statement of profit or loss is approximately HK$1,515,000 (2013: HK$1,169,000).

There is no provision under the MPF Scheme and the Scheme whereby forfeited contributions may be used to reduce future contributions.

41. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction for investing and financing activities

	2014	2013
	HK$'000	*HK$'000*
Conversion of convertible bonds *(note 34)*	**–**	295,550

42. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank borrowings and loans from related companies, which are secured by the assets of the Group, are included in note 32 and note 33, respectively, to the financial statements.

43. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 December 2014, the Group had total future minimum commitments under non-cancellable operating leases, which fall due as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Within one year	**1,686**	1,759
In the second to fifth years, inclusive	**1,275**	2,118
	2,961	3,877

44. CAPITAL COMMITMENTS

At 31 December 2014, the Group had the following capital commitments:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	**31,780**	28,222

45. CONTINGENT LIABILITIES

As of 31 December 2014, the Group provided a guarantee, with no charge, to a bank for a loan with the amount of HK$101,411,000 (2013: HK$50,877,000) granted to Tianjin Jinre Logistics Company Limited, in which the Group holds a 16% equity interest. No contingent liabilities were provided for in the financial statements as the directors believe it is not probable that an outflow will be required to settle the obligation.

46. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related party transactions:

Other than the loan from related companies as disclosure in note 33 to the financial statements, the Group entered into the following transactions with related parties:

	Notes	**2014** **HK$'000**	2013 HK$'000
Heat energy supply service conducted by Tianjin Jinbin on behalf of the Group[1]			
– Revenue		**64,705**	70,736
– Cost of sales		**52,580**	62,094
Purchase of coal from Tianjin Jinre Logistics[2]		**88,860**	94,231
Purchase of raw materials from Tianjin Jinbin[2]		**24,686**	29,570
Purchase of raw materials from Tianjin Jinre Logistics[2]		**–**	1,362
Heat energy supplied to Tianjin Jinbin[3]		**–**	16,576
Interest expense to Tianjin Jinre Co., Ltd.[4]	8	**841**	3,341
Interest expense to Most Honor[4]	8	**19,985**	–
Management fee to Tianjin Jinre Co., Ltd.[5]		**14,185**	9,475

(1) According to an agreement entered into between Tianjin Jinbin and Meijiang Heating on 1 September 2014 and 2013, Tianjin Jinbin will provide part of the heat supply service on behalf of Meijiang Heating, being responsible for collecting related service income and paying the cost and operating expenses on behalf of Meijiang Heating, and Meijiang Heating would settle the net result incurred by Tianjin Jinbin under this arrangement by the end of the next May when the heat energy supply period ends. According to the requirements of HKAS 18, Meijiang Heating is acting as a principal in this arrangement and have recognised the revenue, cost and expenses incurred in the years ended 31 December 2014 and 2013 in their financial statements.

(2) The purchases from Tianjin Jinre Logistics and Tianjin Jinbin were made according to the published prices and conditions offered by them to their major customers.

(3) According to an agreement entered into between Tianjin Jinbin and Tianjin Heating on 3 May 2013, Tianjin Heating would provide hot water to Tianjin Jinbin as heat supply energy.

(4) The interest expense is derived from a loan from Tianjin Jinre Co., Ltd. at 8% per annum and Most Honor at 4% per annum as disclosed in note 33 to the financial statements.

(5) The management fee was based on a certain percentage of heat energy supply income which was in accordance with a management fee agreement.

(b) Compensation of key management personnel of the Group

The remuneration of key management during the year was as follows:

	2014 **HK$'000**	2013 HK$'000
Short term employee benefits	**10,940**	9,555
Retirement scheme contributions	**51**	41
Total compensation paid to key management personnel	**10,991**	9,596

Further details of directors' remuneration are included in note 10 to the financial statements.

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Outstanding balances with related parties

Details of the balances with an associate and related companies as at the end of the reporting period are set out in notes 27, 28 and 33 to the financial statements.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

The Group

2014

Financial assets

	Loans and receivables *HK$'000*	Available–for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	5,895	5,895
Trade receivables	22,512	–	22,512
Financial assets included in other receivables and prepayments	23,864	–	23,864
Amounts due from related companies	133,518	–	133,518
Pledged time deposits	3,169	–	3,169
Cash and cash equivalents	400,897	–	400,897
	583,960	5,895	589,855

Financial liabilities

	Derivatives designated as hedge instruments in hedge relationship *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade and bills payables	–	46,183	46,183
Derivative financial instruments	24,240	–	24,240
Financial liabilities included in other payables and accruals	–	174,105	174,105
Amounts due to related companies	–	96,478	96,478
Interest-bearing bank and other borrowings *(note 32)*	–	1,791,245	1,791,245
Loans from related companies *(note 33)*	–	1,972,673	1,972,673
	24,240	4,080,684	4,104,924

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Group

2013

Financial assets

	Loans and receivables	Available–for-sale financial assets	Total
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale investments	–	5,915	5,915
Trade receivables	1,798	–	1,798
Financial assets included in other receivables and prepayments	16,183	–	16,183
Amounts due from related companies	144,376	–	144,376
Pledged time deposits	10,366	–	10,366
Cash and cash equivalents	196,774	–	196,774
	369,497	5,915	375,412

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade and bills payables	59,499
Financial liabilities included in other payables and accruals	188,789
Amounts due to related companies	44,285
Interest-bearing bank and other borrowings *(note 32)*	6,360
Loan from a related company *(note 33)*	120,463
	419,396

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Company

2014

Financial assets

	Loans and receivables *HK$'000*
Amounts due from subsidiaries	**2,878,526**
Cash and cash equivalents	**29,864**
	2,908,390

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Loan from a related company	**1,854,308**
Amounts due to subsidiaries	**412,266**
Amounts due to a related company	**19,985**
	2,286,559

The Company

2013

Financial assets

	Loans and receivables *HK$'000*
Amounts due from subsidiaries	995,835
Cash and cash equivalents	15,169
	1,011,004

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Amounts due to subsidiaries	253,397
	253,397

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial liabilities				
Derivative financial instruments	**24,240**	–	**24,240**	–

Management has assessed that the fair values of cash and cash equivalents, pledged time deposits, trade receivables, trade and bills payables, financial assets included in other receivables and prepayments, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amounts due from/to related companies, interest-bearing bank borrowings and current portion of loans from related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed approximate to their carrying amounts.

The Group enters into derivative financial instruments with creditworthy financial institutions. Derivative financial instruments, mainly interest rate swaps, are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair values:

Group
As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Derivative financial instruments	–	**24,240**	–	**24,240**

The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2013.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. The Group's accounting policies in relation to financial instruments are set out in note 2.4 to the financial statements.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis by customer. As of 31 December 2014, the Group's trade receivables were HK$22,512,000 (2013: HK$1,798,000).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

The credit risk of the Group's other financial assets, which comprise pledged time deposits, cash and cash equivalents, amounts due from related companies and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's treasury department closely monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are positive. The Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific entities and borrowing loans from banks.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on the contractual undiscounted payments.

Group

	31 December 2014					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Longer than 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Trade payables	**–**	**46,183**	**–**	**–**	**–**	**46,183**
Derivative financial instruments	**–**	**2,402**	**5,767**	**16,071**	**–**	**24,240**
Financial liabilities included in other payables and accruals	**–**	**174,105**	**–**	**–**	**–**	**174,105**
Amounts due to related companies	**96,478**	**–**	**–**	**–**	**–**	**96,478**
Interest-bearing bank borrowings	**7,798**	**15,266**	**46,305**	**1,863,813**	**101,434**	**2,034,616**
Loan from related companies	**118,365**	**18,543**	**55,629**	**1,908,495**	**–**	**2,101,032**
	222,641	**256,499**	**107,701**	**3,788,379**	**101,434**	**4,476,654**

	31 December 2013					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	59,499	–	–	–	59,499
Financial liabilities included in other payables and accruals	–	188,789	–	–	–	188,789
Amounts due to related companies	44,285	–	–	–	–	44,285
Interest-bearing bank and other borrowings	–	6,360	–	–	–	6,360
Loan from a related company	120,463	–	–	–	–	120,463
	164,748	254,648	–	–	–	419,396

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	31 December 2014					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Longer than 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Amounts due to subsidiaries	**412,266**	**–**	**–**	**–**	**–**	**412,266**
Financial liabilities included in other payables and accruals	**3,016**	**–**	**–**	**–**	**–**	**3,016**
Amounts due to a related company	**19,985**	**–**	**–**	**–**	**–**	**19,985**
Loan from a related company	**–**	**18,543**	**55,629**	**1,908,495**	**–**	**1,982,667**
	435,267	**18,543**	**55,629**	**1,908,495**	**-**	**2,417,934**

	31 December 2013					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Longer than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to subsidiaries	253,397	–	–	–	–	253,397
	253,397	–	–	–	–	253,397

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain most of its interest-bearing borrowings at fixed interest rates. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2014, after taking into account the effect of the interest rate swaps, approximately 91% (2013: 100%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Group			Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000	Increase/ (decrease) in basis points	Increase/ (decrease) in equity* HK$'000
2014					
Hong Kong dollar	100	(1,610)	(1,344)	100	–
Hong Kong dollar	(100)	1,610	1,344	100	–

* *Excluding retained profits*

Foreign currency risk

The Group has foreign currency risk as some monetary assets and liabilities are denominated in the functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currencies exchange rates, with all other variables held constant, of the Group's profit/loss before tax (due to changes in the fair values of monetary assets and liabilities).

2014	Increase/ (decrease) in foreign exchange rates %	Increase/ (decrease) in profit before tax HK$'000
If EUR dollar weakens against HKD	5%	(34,025)
If EUR dollar strengthens against HKD	(5%)	34,025
If RMB weakens against HKD	5%	(4,402)
If RMB strengthens against HKD	(5%)	4,402
If US dollar weakens against RMB	5%	(3,311)
If US dollar strengthens against RMB	(5%)	3,311

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

2013	Increase/ (decrease) in foreign exchange rates %	Increase/ (decrease) in loss before tax *HK$'000*
If US dollar weakens against RMB	5%	(2,459)
If US dollar strengthens against RMB	(5%)	2,459
If Hong Kong dollar weakens against RMB	5%	510
If Hong Kong dollar strengthens against RMB	(5%)	(510)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total assets. Total borrowings include interest-bearing bank and other borrowings and loans from related companies. The gearing ratios as at the end of the reporting periods were as follows:

Group	*Notes*	**2014** **HK$'000**	2013 *HK$'000*
Total borrowings			
Interest-bearing bank and other borrowings	*32*	**1,791,245**	6,360
Loans from related companies	*33*	**1,972,673**	120,463
		3,763,918	126,823
Total assets		**7,961,825**	3,806,601
Gearing ratio		**47.3%**	3.3%

50. EVENTS AFTER THE REPORTING PERIOD

To the date of approval of the financial statements, no material subsequent event requiring disclosure occurred.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2015.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**407,020**	757,490	658,998	330,994	124,160
PROFIT/(LOSS) BEFORE TAX	**87,045**	(73,274)	(1,116,924)	(422,590)	(19,344)
Income tax credit/(expense)	**18,536**	(23,699)	37,039	22,108	(3,685)
PROFIT/(LOSS) FOR THE YEAR	**105,581**	(96,973)	(1,079,885)	(400,482)	(23,029)

ASSETS, LIABILITIES AND NON-CONTROLLING INTEREST

TOTAL ASSETS	**7,961,825**	3,806,601	3,679,805	4,751,335	4,674,916
TOTAL LIABILITIES	**(4,903,184)**	(789,498)	(913,769)	(897,629)	(883,639)
NON-CONTROLLING INTERESTS	**(305,088)**	(306,968)	(289,895)	(303,071)	(286,968)
	2,753,553	2,710,135	2,476,141	3,550,635	3,504,309