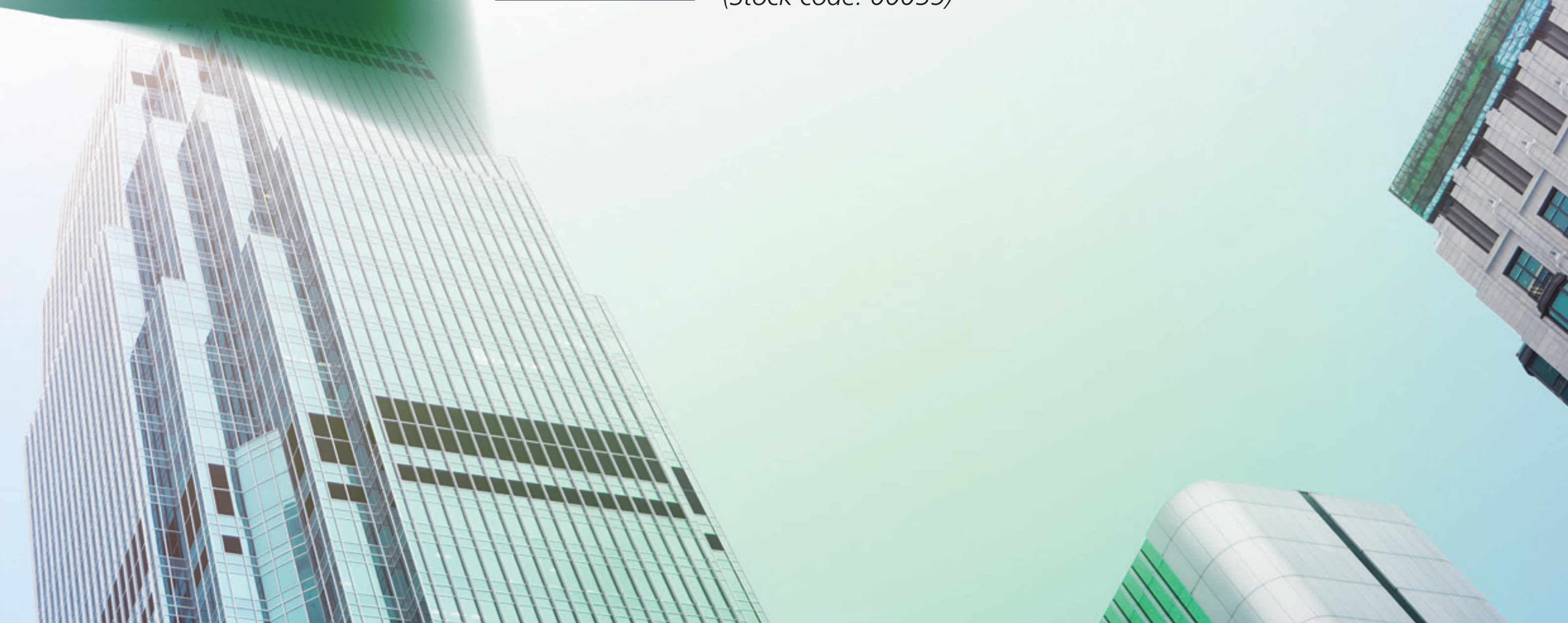
# Annual Report
# 2014

天譽置業（控股）有限公司
**SKYFAME REALTY (HOLDINGS) LIMITED**

*(Incorporated in Bermuda with limited liability)*
*(Stock code: 00059)*



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# CORPORATE INFORMATION

## DIRECTORS

**Executive Directors:**

YU Pan *(Chairman and Chief Executive Officer)*
WEN Xiaobing *(Deputy Chief Executive Officer)*
WONG Lok

**Non-executive Director:**

ZHONG Guoxing

**Independent Non-executive Directors:**

CHOY Shu Kwan
CHENG Wing Keung, Raymond
CHUNG Lai Fong

## COMPANY SECRETARY

CHEUNG Lin Shun

## AUDIT COMMITTEE

CHOY Shu Kwan *(Chairman)*
CHENG Wing Keung, Raymond
CHUNG Lai Fong

## REMUNERATION COMMITTEE

CHUNG Lai Fong *(Chairman)*
CHOY Shu Kwan
CHENG Wing Keung, Raymond
YU Pan

## NOMINATION COMMITTEE

YU Pan *(Chairman)*
CHOY Shu Kwan
CHENG Wing Keung, Raymond
CHUNG Lai Fong

## RISK MANAGEMENT COMMITTEE

WEN Xiaobing *(Chairman)*
CHOY Shu Kwan
CHENG Wing Keung, Raymond
CHUNG Lai Fong

## SHARE LISTING

Main Board of The Stock Exchange
of Hong Kong Limited, Stock Code: 00059

## AUDITOR

BDO Limited
*Certified Public Accountants*

## COMPANY'S WEBSITE

http://www.tianyudc.com

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

32nd to 33rd Floors of HNA Tower
8 Linhe Zhong Road, Tianhe District,
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
Facsimile: (86-20) 2208 2777

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1401, 14/F., AXA Centre
151 Gloucester Road, Wanchai, Hong Kong
Telephone: (852) 2111 2259
Facsimile: (852) 2890 4459

## REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
The Bank of East Asia, Limited

## LEGAL ADVISERS

**Hong Kong Laws:**

Sidley Austin
DLA Piper Hong Kong
Vincent T.K. Cheung, Yap & Co.

**Bermuda Laws:**

Conyers Dill & Pearman

**PRC Laws:**

廣東國鼎律師事務所
(Guangdong Guardian Law Firm)
Jun He Law Offices

# CHAIRMAN'S STATEMENT

In the year, the Company suffered from operating losses caused by the low level of volume of properties completed and sold in Yongzhou. Nonetheless, the Company executed its project development plans as scheduled whereas all projects under development met their critical milestones. Amongst, we have put our Nanning Skyfame Garden Project, a new project acquired in early 2014, onto the market for presale and contracted sales of approximately RMB185.0 million of which presale deposits of approximately RMB119.5 million have been received up to 25 February 2015. In addition, down payments of approximately RMB 1,173.1 million have been received from the district government for the compensated housing for the original occupants for land and group buyers for bulk purchases. Our signature project, Zhoutouzui Project, a large-sized residential project at the riverfront in central Guangzhou, launched its presale of the first two towers on the New Year Day of 2015 and made contracted sales of approximately RMB253.1 million, representing 19.1% of the area marketed for presale up to 25 February 2015. The demand of home buyers for improved housing in the two cities remains solid despite the slowing economy on the mainland in general. We are confident that the Company will bring in reasonable contributions for its shareholders from these projects which are due to be completed in the coming 2016 onwards. We target to implement the project development plans in all of our projects and recognize fruitful earnings to our shareholders when the projects are completed in accordance to the expected development timelines.

In view of the challenges in the market in the coming year, we are conservative in the utilization of financial resources in business development. Our strategies are to maintain a predictable and steady cash flow generated from the sales of the properties for the Group's organic growth in new projects, and acquire new projects by leveraging on collaborations with trustworthy joint venture partners to relieve the Company's gearing level and finance costs. To achieve such strategies, the management strives to sell the properties at competitive prices to generate cash from the property sales at efficient velocities, and invite participation of supportive joint venture partners in some of the projects.

The Group is now maintaining an aggregated developable area of approximately 3.2 million sq.m. which can serve the growth requirement of the Group in the coming 3 to 8 years in light of its existing staff force and business scale. We understand that the operating efficiency for any real estate developer is important under the current market conditions where operating margins are generally suppressed. The management is paying keen attention in improving the operating efficiency by introducing measures to streamline operating systems and setting up clearly defined performance targets for project management teams.

The Company has been a devoted player on dedicated properties in China and is keen to continue its mission to maintain its trustworthy image to our customers and working parties. On behalf of the board of directors, I express my thankfulness to our management team and sincere gratitude to our business partners, lenders, contractors, service providers and customers for their trust on us that enable us deliver our promise as a trustworthy developer.

**YU Pan**
*Chairman*
Hong Kong, 20 March 2015

# CORPORATE PROFILE

Skyfame Realty (Holdings) Limited, listed on the main board of The Stock Exchange of Hong Kong Limited under stock code 00059, is principally engaged in the property development, property investment and property management.

The Group focuses on the development of high-end properties with a wide range of property types, including commercial and residential properties, offices, serviced apartments and hotels. Rooted in Guangzhou, the Group explores into the property markets in second and third tier cities in Southern China with high potentials in the development of commercial and residential projects.

As of the date of this report, the Group has projects in the pipeline with a land reserve for property development of a total GFA of approximately 3.2 million sq.m., covering Guangzhou, Nanning and Yongzhou.

Leveraging on its management expertise in property design, construction, sale and property management services as well as quality land reserve, the Group has established itself a highly reputable property developer in cities where it operates.

**Highlights of Events in 2014**

| | | |
|---|---|---|
| Jan | • | The Group acquired two pieces of land in Wuxiang New District, Nanning, Guangxi province for a residential development named as "Nanning Skyfame Garden". |
| Feb | • | The Company entered into a placing agreement for the placing of bonds up to HK$100 million. |
| Apr | • | The Group acquired the stake interest in a property management company which is engaged in the provision of property management services in Guangdong, Hunan and Guiyang provinces. |
| May | • | Tianya•Huafu Project in Yongzhou started delivery of properties in the first phase to buyers. |
| Jun | • | Tianhe Project in Guangzhou was roof-topped. |
| July | • | The Group disposed 55% equity interest in the remaining phase of development in Tianyu City Project in Guiyang. |
| Aug | • | The Company established the HK$2,300,000,000 medium term bond programme and listed the issued bonds on The Stock Exchange of Hong Kong Limited. |
| Sep | • | Nanning Skyfame Garden Project in Nanning obtained pre-sale permits for the first lot of residential and commercial properties; presales started right away. |
| Dec | • | Zhoutouzui Project, Skyfame Byland, in Guangzhou obtained pre-sale permits for Tower A6 and Tower A7, presale started right away. |

## Major Honours and Awards

Nanning Skyfame Garden Project was chosen as one of the "Real Estate Projects Receiving the Most Attention in Guangxi 2014" (「2014 年廣西人氣關注名盤」) by the Organising Committee of the Guangxi (Nanning) Real Estate Exposition
(May 2014)



Nanning Skyfame Garden Project received the "Guangxi Top Ten Properties Award" of the "Friends of Residence Award" (which is dubbed the "Academy Award" of Guangxi Property development industry)
(「奧斯卡」—「住朋獎」之「廣西十佳樓盤」)
(December 2014)

Guangzhou Skyfame Byland Project won the grand award of "2014 Guangzhou Landmark Residence" (「2014年度廣州住宅地標」)
(December 2014)



Nanning Skyfame Garden Project was chosen as "The Most Popular Real Estate Project 2014" in the "Best Unit Type Design" category
(「2014年度最具人氣樓盤南寧戶型王」)
(December 2014)

Nanning Skyfame Garden Project won a "Guangxi Golden Brick Award of Real Estate 2014" (「2014廣西地產金磚獎」)
(January 2015)

# BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. YU Pan** *(Chairman and Chief Executive Officer)*
Aged 50, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 25 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited*), which was set up in July 1997 from which the Company acquired some real estate projects in Guangzhou in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

**Mr. WEN Xiaobing** *(Deputy Chief Executive Officer)*
Aged 46, was appointed as executive director in November 2013. He is also the Deputy Chief Executive Officer of the Group and President of the Guangzhou head office in charge of overall management of the property development and investment business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 24 years of working experience in managerial positions in corporations in the PRC.

**Mr. WONG Lok**
Aged 57, joined the Company in August 2005. Mr. WONG has over 29 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

## NON-EXECUTIVE DIRECTOR

**Mr. ZHONG Guoxing**
Aged 48, was appointed as non-executive director in October 2013. Mr. ZHONG graduated from the Hunan University, majoring in Manufacturing Accounting and holds a Master's Degree in Business Administration from the Asia International Open University (Macau). He has over 29 years of experience in banking, finance and assets management. Mr. ZHONG at present is the executive director and co-president of China Orient Assets Management (International) Holdings Limited, a subsidiary of China Orient Asset Management Corporation.

# BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. CHOY Shu Kwan**

Aged 60, joined the Company in December 2004. Mr. CHOY holds a Master Degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock code: 119).

**Mr. CHENG Wing Keung, Raymond**

Aged 55, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has over 27 years of experience in corporate, company secretarial and listing affairs. Mr. CHENG is an independent non-executive director in a listed company in Hong Kong, namely Sino Resources Group Limited (Stock code: 223).

**Ms. CHUNG Lai Fong**

Aged 47, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 19 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs. Ms. CHUNG is also an independent non-executive director of Far City Mining Limited, a company listed on Canadian National Stock Exchange.

## COMPANY SECRETARY

**Ms. CHEUNG Lin Shun**

Aged 52, joined the company in March 2005 and has been the Company Secretary of the Company since then. Ms CHEUNG is also the Vice President in charge of all finance affairs at the corporate level of the Group. Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master Degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 29 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

# BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. LIN Shengjie**

Aged 49, is the Vice President of the Guangzhou head office in charge of all general financial operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) (Formerly known as Guangdong University of Business Studies (廣東商學院)) and has over 24 years of working experience in the finance and accounting in property development, direct investments in the PRC, Thailand and Hong Kong.

**Mr. XIE Xiao Hua**

Aged 44, is the Vice President of Guangzhou head office in charge of engineering and costing at the Guangzhou head office. Mr. XIE graduated from Sun Yat-sen University with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 20 years of working experience in the area of engineering management in overall project development.

**Ms. YUAN Hongfang**

Aged 43, is the Vice President of the Guangzhou head office in charge of contract and legal matters of Guangzhou head office. Ms. YUAN graduated from Lingnan College, Sun Yat-sen University (中山大學嶺南學院) and holds a Master Degree in Business Management. She has over 20 years of working experience in finance and administration in the sectors.

**Mr. ZHENG Zhong**

Aged 44, is the Vice President of Guangzhou head office in charge of design matters at the Guangzhou head office. Mr. ZHENG graduated from Xiamen University with a Bachelor's Degree in Engineering and holds a grade 1 registered architect certificate. He has over 22 years of working experience in the area of architectural design management in large-scale property developers in the PRC such as Aoyuan and the Sincere Group.

**Mr. WU Xue Wei**

Aged 41, is the Vice President of Guangzhou head office in charge of marketing matters at the Guangzhou head office. Mr. WU graduated from Inner Mongolia Agricultural University with a Bachelor's Degree in Economics. He has over 17 years of working experience in the area of marketing and business management for different types of properties in large-scale real estate groups in the PRC such as Vanke, Minmetals, and Haiyi.

# MANAGEMENT DISCUSSION AND ANALYSIS

## A. Business review

The year of 2014 has been a difficult year to most of the property developers. As reported by the National Bureau of Statistics (NBS) *(note)*, growth in China's real estate investment slowed to 10.5% in 2014 (2013: 19.8%) from a year earlier, while revenue from property sales dropped 6.3% on an annual basis, being dampened by the weakening property sector. In amidst of the slowing economy on mainland China, the sentiment in general consumption and, in particular, demand for properties which is more sensitive to economic ups and downturns, was adversely affected. In the earlier months of the year, the market generally perceived a hard landing and buyer sentiment of all regions in the country was low. Coupled with the vast supply of inventories, property developers were compelled to sell properties at suppressed margins. The property development business of the Group was affected by the sluggish demand in residential properties. Situation has been especially acute in the tier-3 and 4 cities where demand for properties was slack and inventories were built up as a consequence. In these regions, property prices are not sensitive to product quality, competition in property sales has been particularly keen, leading to high pressure in sale prices.

Facing the possible downturn and aiming to maintaining liquidity required for the Group's operation, the management had been striving to realize sufficient cash from projects which are regarded as not very efficient in earnings and cash generation. To monetize our portfolio effectively, apart from putting aggressively sale efforts in the properties in Yongzhou Project and Nanning Skyfame Garden Project that were launched for presales during the year, the management disposed of the Group's entire equity interest in the final phase of the development in Guiyang Project and invited the participation of a 20% equity interest by a joint venture partner in Nanning Skyfame Garden Project to receive an aggregated cash proceeds of approximately RMB70.5 million.

Along with the continued improvements in market sentiment and release of pent-up demand in recent months, the management expects the market will gradually recover in 2015. To sustain growth of the Group's property development business in the next development cycle from 2018 onwards when all the Group's projects (except for the newly acquired Nanning Riverside Project) will be completed, the management targets to build up land reserves in selected regions in the first-tier cities and Nanning that are with solid market demand, and strong growth potential.

*Note:* Source: http://www.businessspectator.com.au/article/2015/1/20/china/chinas-slowing-growth-has-silver-lining

# MANAGEMENT DISCUSSION AND ANALYSIS

## B. Property Portfolio

### *1. Properties under development and land reserves*

Including the Guiyang Project (a project disposed during the year), the Group underwent or is undergoing a total of five real estate development projects in mainland China during the year. Up to the date of this report, adding on the new project with planned developable GFA of approximately 1,425,000 sq.m. situated at the riverfront in Nanning acquired in a public land auction on 4 February 2015, the Group's projects on hand renders a land reserve of a project total GFA of approximately 3,245,000 sq.m., out of which a total GFA of approximately 680,000 sq.m. are currently or will be in pre-sale stage in the coming months in 2015.

The details about the Group's projects on hand are summarised below:

| Project | Location | Property type | Estimated Project Total GFA *(sq.m.) (Note 1)* | Actual/ estimated completion year | The Group's interest |
|---|---|---|---|---|---|
| Zhoutouzui Project | Guangzhou | Residential and commercial | 320,000 | 2016 to 2017 | 72% |
| Nanning Skyfame Garden Project | Nanning | Residential, commercial and ancillary facilities | 1,176,000 | 2016 to 2018 | 80% |
| Nanning Riverside Project | Nanning | Composite | 1,425,000 | 2018 to 2022 | 100% |
| Yongzhou Project | Yongzhou | Residential, commercial and ancillary facilities | 212,000 *(Note 1)* | 2014 to 2016 | 70% |
| Tianhe Project | Guangzhou | Commercial | 112,000 | 2016 | *(Note 2)* |
| Total | | | 3,245,000 | | |

*Notes:*

(1) Project total GFAs presented here represent the total gross floor area developable in the project, including the area sold and delivered in the year and previous years. The GFA in Yongzhou Project includes 16% of GFA which has been sold and delivered in the year.

(2) Equity interests in the project was sold in 2010 and the Group resumes the role as the project manager of the project. Revenue and costs associated with the disposal will only be recognized in the consolidated profit or loss of the Company upon completion of the project.

## B. Property Portfolio (continued)

### 1. *Properties under development and land reserves (continued)*

*Zhoutouzui Project*

The project, named as "Skyfame Byland" ("天譽半島"), is held by a sino-foreign cooperative joint venture enterprise which is jointly controlled by the Company and a third party, Guangzhou Port Group Co., Limited (廣州港集團有限公司 "**Port Authority**"), an original user of the land who is entitled to share 28% in GFA of the completed properties pursuant to a joint venture agreement entered into in 2001. The legal title over the remaining 72% of the completed properties rests with the Group.

Skyfame Byland – Artist's Impression

Skyfame Byland

The site, opposite to the renounced White Swan Hotel, offers a full waterfront view of the Pearl River. The project, situated on a site of 43,609 sq.m., will be a mixed-use development with a total GFA of approximately 320,000 sq.m., consisting of 7 towers comprising residential apartments, offices, serviced apartments, municipal and other facilities, underground car parking facilities and supporting commercial facilities.

Up to 25 February 2015, Tower A1 has been roofed, the mainframes of the other towers will be completed in 2015. The management expects that Tower A4 and A5 will be completed and started to be delivered to buyers in 2016, whilst Tower A2, A3, A6 and A7 delivered in 2017. Other than serviced apartments in Tower A1 that is currently planned to be held for long-term leasing, the residential units in other towers (with the exception of a total GFA of approximately 81,000 sq.m. in Tower A4, A5 and certain car parking spaces that are to be handed over to the Port Authority) are expected to be pre-sold in 2015 and years onwards. Pre-sale of residential units in tower A6 and A7 commenced in January 2015, and up to 25 February 2015, contracted sales of a total GFA of approximately 7,300 sq.m. have been made and deposits for contracted sales of approximately RMB181.4 million have been received.

## B. Property Portfolio (continued)

### 1. *Properties under development and land reserves (continued)*

*Tianhe Project*

The project, consisting of a GFA of approximately 112,000 sq.m. in two twin towers, is a mixed-use development that comprises a hotel, serviced apartments and offices situated in Tianhe District, a commercial business hub in central Guangzhou. The curtain walls of the two towers have been completed and currently interior decoration works are being carried out and electrical and mechanical appliances being installed.

Tianhe Project

Pursuant to an agreement entered into with Hainan Airline Hotel Holdings Group Co., Limited (海航酒店控股集團有限公司) (“**HNA Hotel**”) as the purchaser in 2010, the equity interest in the project was sold to HNA Hotel at a gross consideration of RMB1.09 billion before deduction of finance and other costs to be borne by the Group. According to the disposal agreement, construction costs are to be borne by HNA Hotel whilst the Group resumes the role of a project manager and is responsible for the due completion of the properties at an agreed timeline of development and any overruns in construction costs.

Given the current progress of the development, the Directors expect that the project will be completed in mid-2016 and the sale transaction entered into in 2010 will then be fully recorded in the accounts of the Group. With our current assessment of the costs to be borne by the Group, an estimated gain of approximately RMB213.3 million will be recognised upon completion of the project. The project will be launched for pre-sale in the second quarter of the year 2015.

Tianyu-Huafu

*Yongzhou Project*

Under the framework agreement entered into with the city government of Yongzhou, Hunan province in 2011, two subsidiaries of the Group are contracted to develop the Yongzhou Project that offers a total site area of 1,000 mu on which a total GFA of about 1.6 million sq.m. is to be developed into residential, commercial complexes and street-front shops. As a condition to the grant of development rights, the project company is also obliged to manage the remodelling works of some scenic spots in Donshan District of Yongzhou.

The first phase of the Project, named as “Tianyu-huafu” (“天譽•華府”), features a residential development of villas, apartments and retail shops with a total GFA of approximately 212,000 sq.m. on a 106-mu site. On the date of this report, except that 9 towers of high-rise apartments are under construction, all villas, retail shops and low-rise apartments have been completed. In 2014, GFA of approximately 31,000 sq.m., mainly of low-rise apartments, have been sold and delivered to buyers. Up to 25 February 2015, contracted sales of RMB321.8 million for apartments and RMB68.1 million for villas and retail shops were made. The overall average selling price of these contracted sales is approximately RMB3,600 per sq.m..

## B. Property Portfolio (continued)

### 1. *Properties under development and land reserves (continued)*

*Nanning Skyfame Garden Project*

Nanning Skyfame Garden – Artist's Impression

The project is situated in Wuxiang New District (五象新區), a new zone in Nanning, Guangxi province. Commenced construction since the Group acquired the land use right from a land auction in the first quarter of 2014, the project is being developed into a residential district, namely "Nanning Skyfame Garden" ("南寧天譽花園"), with a total GFA of approximately 1,176,000 sq.m., consisting of GFA of approximately 887,000 sq.m. for residential and retail properties and other facilities for sale and a total GFA of approximately 289,000 sq.m. for compensated housing and commercial properties for the resettlement of the original occupants. The project is divided into five zones, namely Zone 3, 4, 5, 6 and 7.

Nanning Skyfame Garden

Up to 25 February 2015, all zones are under construction. Pre-sales of property units in Zone 3 of GFA of approximately 78,000 sq.m. have commenced and contracted sales totaling approximately RMB185.0 million, representing 42.2% in GFA, have been made up to 25 February 2015 and handing-over to buyers is scheduled to commence in the fourth quarter of 2016. The management also plans to commence pre-sale of some areas in Zone 4 and 5 with scheduled physical delivery to buyers by phases through late 2016 to 2018. GFA of 289,000 sq.m. in Zone 4, 6 and 7 will be delivered to the city government for resettlement properties for which deposits totaling approximately RMB993.2 million were received from the district government during the year. In addition, deposits of approximately RMB179.9 million have been received from interested group buyers.

## B. Property Portfolio (continued)

### *1. Properties under development and land reserves (continued)*

*Nanning Riverside Project*

In February 2015, the Group succeeded in a public auction for the land use rights of three land plots of site area of 194,220.95 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi province, the People's Republic of China province at an aggregate consideration of approximately RMB705.0 million. The development is planned to be a composite project that comprises residential and commercial properties of shopping mall, hotel, offices, car parks for sale and leasing and other ancillary facilities with a planned total GFA of approximately 1,425,000 sq.m.. Based on the latest design plans, a total saleable area in GFA of approximately 1,382,000 sq.m. will be developed of which GFA of retail properties, consisting of shopping mall and street-front shops is approximately 93,000 sq.m., offices is approximately 427,000 sq.m., hotel is approximately 45,000 sq.m., leisure and entertainment facilities is approximately 33,000 sq.m., residential properties is approximately 492,000 sq.m., and car parking spaces is approximately 292,000 sq.m.. To fulfil the condition of the grant of land, the directors determine that a total GFA of approximately 50,000 sq.m. of retail properties shopping mall will be held for a holding period of not less than 20 years. The remaining saleable area will be developed for sale. Preliminary development works will be commenced in the first half of 2015 right after the signing of the land transfer contract.

### *2. Investment properties*

The Group also holds two investment properties for regular leasing income with details as follows:

A 19,800 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou of which 17,300 sq.m. is leased to tenants with an open market value at RMB447.0 million as at 31 December 2014. The leased property was 94.3% occupied as at 25 February 2015. The occupancy rate has recovered when new tenancies are made after the ex-tenants moved out upon the expiry of the leases in 2013. The other 2,500 sq.m. is occupied by our property management team.

A total of 14,500 sq.ft. office premise at AXA Centre in Wanchai, Hong Kong was acquired by the Group in April 2013, of which GFA of 8,800 sq.ft. are leased to third party tenants and the remaining for self-use. The leased property units are revalued at an open market value of approximately RMB109.5 million (approximately HK$138.8 million) as at 31 December 2014.

## C. Business Outlook

After slowing property performance in the earlier periods in 2014 across most cities in the nation, both in volume and selling prices, there shows small rebounds in recent months in the fourth quarter of 2014 in tier-1 and 2 cities whilst the markets in tier-3 and 4 cities are still gloomy. The bottoming-out in recent months was supported by the lowering housing mortgage rates by mortgage banks that helps boost mortgage loans and stimulated demand. With the relaxation of government intervention policies in many cities during 2014, the management expects that the home purchase restriction in the remaining four cities, including Guangzhou, will come to the end soon and there will be no more new tightening measures but supportive financial and administrative policies such as further relaxation of housing mortgage application requirement, tax cuts and the general loosening in bank lending. The Directors view that the coming year is likely to be a year of recovery for the property sector in which buying sentiment is restored, resulting in moderate rising property prices and trading volumes.

## C. Business Outlook (continued)

From the perspective of the Company, the coming years in 2015 and onwards are years of harvest when all projects on hand, except the newly acquired Nanning Riverside Project, will be put up for pre-sale in 2015. There will be approximately an aggregate volume of properties in GFA of 680,000 sq.m. that are currently or will be in pre-sale stage in 2015. Amongst all, Zhoutouzui Project, being a sizable upmarket project in Guangzhou, is particularly a cash cow that will remarkably improve the Group's liquidity position. The Directors target to achieve an aggregated total of RMB3 billion in contract sales in 2015. As a result, the Group can then ride on the stronger asset backing position and improved liquidity to enhance the Group's ability to finance new land acquisitions for maintaining a growth momentum to the Group in the future years. The operating performance in property sales in the forthcoming years from the two projects in Zhoutouzui and Tianhe in Guangzhou and the two projects in Nanning is well expected to be promising. It will induce a strong turnaround in the Group's bottom line earnings.

The Directors are keen to maintain a steady growth in both the property sales and earnings to the Group that will ultimately enhance the intrinsic value of the shares of the Company to its shareholders. To achieve such objectives, the management is continuously reviewing the performance of existing projects and takes proactive actions to monetize the less performing projects. In addition, strategies in land and project acquisition are reviewed from time to time in order that a careful and selective approach is adopted that is geared to the potential for demand for properties in those cities. In the coming years, the Group will concentrate on project development in first-tier cities or coastal cities like Nanning where the property markets are firm and solid. At the same time, more managerial measures are being put in place to develop clearly defined performance targets to drive staff at all levels.

## D. Financial Review

***Sales Turnover and Margins***

Due to the low volume of properties delivered in the year, turnover for the year amounted to RMB157.9 million, representing a 76.6% drop in turnover from last year. Property sales of the Group constituted to 73.5% of total revenue for the year (2013: 96.7%). During the year, the Group delivered properties of 30,700 sq.m. in GFA in "Tianyu-huafu" ("天譽•華府") in Yongzhou, Hunan province, mostly of low rise apartments, bringing in a total revenue of RMB102.1 million to the Group, and sales of 2,600 sq.m. in GFA and RMB14.0 million of high-rise apartments in Guiyang Project prior to the project being disposed by the Group in mid-2014.

The GFA delivered in 2014 aggregates to 33,300 sq.m., representing a 78.1% drop when compared with 2013. Facing low demand for higher quality properties in the region, sales in Yongzhou Project for the year, mainly of apartments for the mass market, commanded a relatively low average selling price of RMB3,300 per sq.m. compared with the development cost, presenting a disappointing margin of -3.7%. Including the sales of properties in Guiyang Project, the gross margin in property sales for the year is 0.9% for the year (2013: 17.1%). Given the similar types of properties sold during the two years, the differential in margins in the two years reflects the differences in prices commanded in the markets in Yongzhou and Guiyang for residential apartments. Following the expected sales of the higher-end villas and commercial units in Yongzhou Project in the coming year, we expect the margin performance in property sales will improve.

## D. Financial Review (continued)

***Sales Turnover and Margins (continued)***

The Group's secondary line of business, the leasing of properties from mainly the commercial podium at Tianyu Garden Phase II in Guangzhou and offices at AXA Centre in Wanchai, Hong Kong, contributed a total revenue of RMB18.0 million, a drop of 17.2% from last year. The leasing income has been a relatively stable contributor in both revenue and margin. Having said, however, leasing income for the year declined as a result of the casual vacancies and some areas being turned to be self-occupied during the year. The margin of this income stream is 84.2%.

The Group acquired the entire equity interests in a property management company to promote horizontal integration in 2014. The sector provides a relative stable income of RMB23.8 million for the year with a margin of 74.7% (2013: 72.9%).

Though the margin of property sold during the year is low, the overall gross margin of the Group for the year is 21.5%, which is higher than the margin of 19.2% for 2013. The reason is due to the fact that property sales, a comparatively lower margin income earner, represented less in proportion to the Group's overall turnover for the year than that in 2013.

***Operating Expenses***

As a result of the launching of pre-sale marketing activities in Nanning Skyfame Garden Project and Yongzhou Project, sales and marketing expenses, consisting of advertising, promotions, agent commission and marketing staff costs, surged 20.6% to RMB23.1 million. Administrative and other operating expenses amounting to RMB102.3 million, increased 53.9% from 2013. Staff costs, being the biggest expense item constituting 42.2% of total operating expenses for the year, amounted to RMB53.0 million, representing a 25.3% rise in costs from the previous year. Total staff costs incurred during the year amounted to RMB76.9 million, of which RMB23.9 million were capitalized as development costs of properties under development. The rise in staff costs is a combined effect of the increase in staff headcount to 569 from 262 in 2013 mainly due to the expansion in the property development team and the property management team in the property management business newly acquired.

***Finance Costs***

The Group's additional borrowings in the year were mostly utilized to finance the acquisition of land in Nanning Skyfame Garden Project and construction of projects. Finance costs, including arrangement fees, incurred during the year rose 185.2% to RMB236.4 million. Most finance costs incurred were capitalized as costs of those projects under development whilst only RMB1.9 million was charged against the profit for the year. Based on the finance costs incurred during the year, the Group's annualized blended borrowing costs is 12.4%.

## D. Financial Review (continued)

***Non-operating Items***

Non-operating items include: (a) decline in fair values of investment properties of RMB38.8 million (2013: gain of RMB36.1 million); (b) the write-down of RMB38.8 million on costs of properties under development in Yongzhou Project which are above their estimated realizable values (c) the net decrease of RMB1.7 million in the fair values of the derivative financial liabilities embedded in the rights attached to the Company's exchangeable bonds issued to the subscriber of the bonds to empower the bondholder the rights to exchange the bonds for the equity interests in Guangzhou Zhoutouzui Development Limited, a holding company of the project company engaged in the development of Zhoutouzui Project, together with the rights to put the exchanged shares to the Company and the Company's right to buy the exchanged shares back; and (d) the losses incurred in the disposal of the Group's equity interests in the project company of and the management property company servicing the Guiyang Project to third parties. The disposals incurred losses totaling RMB15.8 million for the year.

***Taxation***

The overprovision in taxation of RMB8.4 million is mainly a result of the decline in the value of investment properties in Guangzhou which was provided in previously years when the values of such properties rose.

***Losses/Profits Attributable to Shareholders***

The relatively low turnover during the year whilst operating costs remaining at high level has negatively impacted the operating results of the Company for the year. The Company incurred a consolidated after-tax loss of RMB160.0 million for the year of which losses of 141.3 million were attributable to the shareholders of the Company. For the preceding year, the Company had a consolidated after-tax profit of RMB112.7 million of which profit of RMB64.0 million were attributed to the shareholders of the Company.

***Liquidity and Financial Resources***

1. Asset Base

| | **2014** | 2013 | |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | Change in % |
| Total assets | **6,924,966** | 5,007,247 | 38.3% |
| Net assets | **1,735,614** | 1,925,649 | -9.9% |

Properties under development is the biggest asset category constituting 55.3% of the total assets of the Group, Other assets include interests in Tianhe Project constituting 11.2%, investment properties constituting 8.0%, property, plant and equipment constituting 3.9%, restricted and pledged deposits constituting 4.8%, cash and cash equivalents constituting 2.9%, properties held for sale in Yongzhou Project constituting 1.8% and consideration receivable from HNA constituting 1.5%. Total assets increase in pace with the development stages of the projects when the Company invested more in the development costs during the year. The decrease in net assets is attributed by the loss for the year and the decreased interests held by non-controlling shareholders in projects as a result of disposal of Guiyang Project and loss shared by non-controlling shareholder in Yongzhou Project.

## D. Financial Review (continued)

***Liquidity and Financial Resources (continued)***

2. Capital structure and liquidity

The indebtedness of the Group aggregates to RMB2,274.9 million at the year-end date, representing an increase of RMB1,228.8 million when compared with that of last year. The increase is driven by the increased borrowings to meet with the construction costs of the Group's ongoing projects and acquisition cost of Nanning Skyfame Garden Project during the year. The details and maturity profile of the indebtedness are illustrated as follows:

| | Within one year | 1 to 2 years | 2 to 5 years | Over 5 years | Total carrying amount |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank and other borrowings | | | | | |
| – Secured bank borrowings | 819,577 | 321,672 | 9,233 | 51,246 | 1,201,728 |
| – Other secured borrowings | 244,642 | 500,000 | – | – | 744,642 |
| – Unsecured borrowings | 178,000 | 118,596 | – | 31,861 | 328,457 |
| | 1,242,219 | 940,268 | 9,233 | 83,107 | 2,274,827 |
| Derivative financial liabilities | 32 | – | – | – | 32 |
| | 1,242,251 | 940,268 | 9,233 | 83,107 | 2,274,859 |

The gearing ratio (calculated as total indebtedness net of cash and cash equivalents (the "**Net Debt**") divided by the equity attributable to shareholders of the Company plus Net Debt) is 51.0% at the year-end date (2013: 28.7%). The increase in the gearing ratio reflects the rise in the Group's indebtedness to finance the needs of the ongoing development projects and new acquisition. In light of all projects under construction going into pre-sale stage in 2015, the management perceives that the Group has sufficient liquidity to confront with the debt commitments at maturity.

## D. Financial Review (continued)

***Liquidity and Financial Resources (continued)***

2. Capital structure and liquidity *(continued)*

| | 2014 RMB'000 | 2013 RMB'000 | Change in % |
|---|---|---|---|
| **Current assets** | | | |
| Properties under development | **3,828,284** | 2,262,709 | 69.2% |
| Properties held for sale | **125,526** | 173,395 | -27.6% |
| Trade and other receivables | **467,037** | 453,931 | 2.9% |
| Short-term investments | **244,000** | – | – |
| Restricted and pledged deposits | **334,844** | 57,660 | 480.7% |
| Cash and cash equivalents | **201,105** | 300,516 | -33.1% |
| *Sub-total (A)* | **5,200,796** | 3,248,211 | 60.1% |
| **Current liabilities** | | | |
| Trade and other payables | **228,774** | 228,740 | 0.0% |
| Properties pre-sale deposits | **1,461,340** | 571,377 | 155.8% |
| Bank and other borrowings – current portion | **1,305,610** | 300,885 | 333.9% |
| Derivative financial liabilities – current portion | **32** | 23,963 | -99.9% |
| Loans from non-controlling shareholders of a subsidiary | **–** | 84,803 | -100.0% |
| Income tax payable | **64,971** | 65,801 | -1.3% |
| *Sub-total (B)* | **3,060,727** | 1,275,569 | 139.9% |
| **Net current assets (A-B)** | **2,140,069** | 1,972,642 | 8.5% |
| **Current ratios (A/B)** | **1.70** | 2.55 | -33.3% |

Current assets, totaling RMB5,200.8 million as at the year-end date, show an increase of RMB1,952.6 million from that of the last year-end date. The increase in current assets is due to acquisition of Nanning Skyfame Garden Project and the increase in cash received from presales and deposits placed by buyers for properties to be sold.

Total current liabilities at the current year-end amounted to RMB3,060.7 million, representing an increase of RMB1,785.1 million compared with that of the last year-end date. The increase in current liabilities is mainly due to increase pre-sale deposits and bank borrowings which are repayable within one year.

The current ratio, which is 1.7 times at the current year-end (2013: 2.6 times), indicates tightened liquidity as more indebtedness are becoming mature in the coming year. The management is monitoring the projected cash position of the Group from time to time to ensure appropriate control measures are put in place to assure a stable liquidity position.

## D. Financial Review (continued)

***Liquidity and Financial Resources (continued)***

3. Borrowings and pledge of assets

The land and construction works-in-progress in Zhoutouzui Project and Yongzhou Project, the premises at AXA Centre and commercial podium in Tianyu Garden Phase II and office premises at HNA Tower are mortgaged in favour of commercial banks and the beneficiary of a trust to secure for financing facilities granted to the Group for general working capital and construction costs. In addition, share charge over the entire issued shares of GZ Zhoutouzui, a subsidiary holding the equity interest in Zhoutouzui Project, is secured against the exchangeable bonds issued to a financial institution. As at 31 December 2014, the outstanding balances of these secured indebtedness amounted to RMB1,946.4 million. These pledged assets and the underlying assets represented by the shares of GZ Zhoutouzui carried an aggregated net realizable value of RMB8,768.3 million measured by open market values as at 31 December 2014. Comparing the market values of the charged assets offered to creditors with the related indebtedness outstanding, the management considers that the Group has adequate asset backing to serve the leverage requirement of its creditors.

## E. Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2014 (2013: Nil).

## F. Treasury Management

The Group's principal business in property development are conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries, whilst certain financing, property leasing, investment holding and administrative activities of the Group are carried out and denominated in HK dollars.

During the year and up to the year-end date, RMB depreciated against HK and US dollars by 0.3%. Foreign exchange losses totaling RMB1.0 million were realised when foreign transactions were transacted in Hong Kong dollars. Exchange differences arising from the consolidation of assets and liabilities of some subsidiaries operated in Hong Kong results to an exchange loss of RMB0.3 million as at 31 December 2014. The loss is charged against the exchange reserve that forms part of the equity of the Company. The management expects that most of the business activities are denominated in RMB and the exchange exposures are therefore immaterial. The management does not perceive the exchange fluctuation will have material effect on the Group. Therefore, no control measure is taken to hedge against exchange risks. In addition, it is the Group's policy not to enter into derivative activities for speculative objectives.

## G. Employees

To keep pace with the growth of the Group, the Group recruits suitable staff in capable caliber from time to time. As at 31 December 2014, including the three Executive Directors, the Group employed a total of 569 staff, of which 151 full-time staff working in site offices for daily site operations and 149 in management offices in Guangzhou and Hong Kong for central management and supporting services in the property development business, as well as 269 full-time staff for property management working in property management offices in Guangdong, Guangxi and Hunan provinces. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by bonuses benchmarked on performance targets. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.

# ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

## INTRODUCTION

The report, being the second Environmental and Social Responsibility Report of the Company, covers the Company and its subsidiaries (collectively referred to as "**the Group**") for the financial year ended 31 December 2014.

Environmental protection and social responsibility do not only help improve the public image of an enterprise. In the new and developing capital environment where investors look for not only an enterprise's performance and its ability to create the best return for the shareholders, but also the enterprise's social value and environmental awareness. An enterprise with high awareness in social responsibility and environment awareness wins goodwill and thus attract investments and increase investors' confidence in the enterprise. As a Chinese real estate enterprise listed in Hong Kong, Skyfame takes up its obligations in environmental and social responsibility while creating economic value and strives for better performance for its shareholders.

This report focuses on the Group's contributions in creating quality working environment for the employees, preservation of the natural environment as well as operating an ethical business for its customers.

## QUALITY OF WORKING ENVIRONMENT

1. **Working Environment**

   The company has compiled the "Human Resources Management Manual", which sets out strict guidelines on the policies of human resources such as "Guidelines on the Recruitment Procedures", "Operation Guidelines on Appointments and Confirmations of Employment", "Operation Guidelines on Termination Management", and "Rules on Remuneration Management" regulating different aspects including recruitment, promotion, compensation and dismissal, working hour, rest days, diversity and other benefits. All guidelines are based on relevant laws and regulations, including but not restricted to the "Labour Law" and "Law on Employment Contract" of China. The Group strictly followed the above guidelines and related laws and regulations.

   **Number of Employees by age-groups and genders**

| | Gender | Under 30 | 31-40 | 41-50 | Over 50 | Total |
|---|---|---|---|---|---|---|
| Headquarters/Administration Office | Male | 21 | 46 | 19 | 2 | 88 |
| | Female | 19 | 28 | 10 | 4 | 61 |
| | Sub-total | 40 | 74 | 29 | 6 | 149 |
| Project Operation | Male | 28 | 58 | 18 | 3 | 107 |
| | Female | 27 | 13 | 3 | 1 | 44 |
| | Sub-total | 55 | 71 | 21 | 4 | 151 |
| Property Management | Male | 54 | 58 | 66 | 23 | 201 |
| | Female | 29 | 23 | 8 | 8 | 68 |
| | Sub-total | 83 | 81 | 74 | 31 | 269 |
| Total | Male | 103 | 162 | 103 | 28 | 396 |
| | Female | 75 | 64 | 21 | 13 | 173 |
| | **Total** | **178** | **226** | **124** | **41** | **569** |

## QUALITY OF WORKING ENVIRONMENT (continued)

**1. Working Environment (continued)**

**Number of Employees by Regions**

| | Guangzhou | Nanning | Yongzhou | Hong Kong *(Note)* | Total |
|---|---|---|---|---|---|
| Headquarters/Administration Office | 138 | – | – | 11 | 149 |
| Project Operation | 36 | 66 | 49 | – | 151 |
| Property Management | 181 | 29 | 59 | – | 269 |
| **Total** | **355** | **95** | **108** | **11** | **569** |

*Note:* including 3 executive directors of the Company.

**Employee Turnover Rate by Age-Group and Region**

| | Region | Under 30 | 31-40 | 41-50 | Over 50 | Total Attrition | Turnover Rate *(Note)* |
|---|---|---|---|---|---|---|---|
| Headquarters/ Administration Office | Guangzhou | 5 | 12 | 6 | – | 23 | 17.90% |
| | Hong Kong | 2 | – | – | – | 2 | 18.18% |
| | Sub-total | 7 | 12 | 6 | – | 25 | 17.92% |
| Project Operation | Guangzhou | – | 2 | – | 1 | 3 | 10.34% |
| | Nanning | 7 | 9 | 2 | – | 18 | 47.37% |
| | Yongzhou | 9 | 2 | – | – | 11 | 23.66% |
| | Sub-total | 16 | 13 | 2 | 1 | 32 | 28.19% |
| Property Management | Guangzhou | 22 | 14 | 8 | 4 | 48 | 27.83% |
| | Nanning | 15 | 1 | 1 | – | 17 | 113.33% |
| | Yongzhou | 33 | 10 | 9 | 2 | 54 | 122.73% |
| | Sub-total | 70 | 25 | 18 | 6 | 119 | 51.40% |
| **Total number of employees/ Turnover Rate** | | **93** | **50** | **26** | **7** | **176** | **35.66%** |

*Note:* Turnover Rate = Total attrition during the year/((number of Employees at the beginning of the year + number of Employees at the End of the Year)/2); and assuming that the acquisition of property management business was completed at the beginning of the year.

## QUALITY OF WORKING ENVIRONMENT (continued)

**1. Working Environment (continued)**

Due to the acquisition of Guangzhou Tianyu Property Management Company Limited during the year, the number of employees surged from 262 in 2013 to 569 (including 3 executive directors) in 2014. If the employees from the newly acquired property management company are excluded, the real estate business of the Group has recruited 38 new employees this year, representing a 15% increase compared to the previous year. To facilitate the company's needs in face of continuous business growth in recent years, the Company has been running recruitment campaigns, with a focus on new college graduates as well as those having appropriate working experience. The Company was successful in recruiting youthful and energetic employees who have brought new impetus to the Company. The Group's employees are relatively young, i.e employees under 40 years of age making up 71% of the total number of employees in the Group.

The overall employee turnover rate was 35.66%. Because of the comparatively lower wage level of the security guards in the property management team, they have a relatively higher turnover rate in general. 119 employees resigned from the property management company this year, representing 67% of the Group's total attrition, and has thus raised the Group's overall employee turnover rate. In addition, 93 of the resigned employees (representing 53% of the total attrition) were under 30 who are young and are easily tempted to move around for new jobs.

**2. Health and Safety**

The Company complies strictly to the PRC's laws and regulations to protect the employee's occupational safety and health. The Company has developed its enterprise occupational health guidelines according occupational health and safety standards including OHSMS, ISO 9000 and ISO 14000, for the prevention of occupational diseases, protect workers' health, enhance employees' safety awareness, ensure safety in construction that satisfy both the goals of the enterprise and the needs of the employees. The Company has instructed department supervisors to be fully responsible for the management of occupational safety and health. The project companies' safety supervisors provide safety trainings to employees working at positions that are highly susceptible to occupational diseases, supervise and inspect the use of safety measures, and inspect and rectify the safety pitfalls in workplaces. The Group arranges relevant health checking for employees in positions that are highly susceptible to occupational diseases, and document their health profile. The Group also arranges annual body check for all employees to help identify potential health risks in advance so as to strengthen the employees' health protection.

The Company has compiled the "Operation Guidelines on the Management of Construction Safety and Legitimacy" (安全文明施工管理作業指引). Through prevention and control measures, the Company has strived to reduce the probability of workplace accidents in construction projects, improve the image and environment of the construction sites and standardize safety management procedures and accident handling knowledge. Project companies assess the management measures prepared by the contractors in regard to construction safety and legitimacy, and conduct independent patrolling, sample checking and monitoring on every aspects of the construction sites, report to the relevant person-in-charge and the contractors when problems are identified and monitor the relevant rectifications. The Group's Projects Management Division monitors the project companies' execution of safety management policies. The Company requires the contractors to establish trainings on safety education and techniques, which shall be held regularly and seasonally.

## QUALITY OF WORKING ENVIRONMENT (continued)

**2. Health and Safety (continued)**

The Group's Projects Management Division organizes internal safety management teams to regularly inspect the safety and incidents prevention measures on the sites of construction-in-progress, the results of which will be reported directly to the Company's management. During the year, the Group has strictly complied with relevant laws and regulations and guidelines, and no serious workplace accident has occurred.

**3. Development and Trainings**

To enhance the Group's operation management as well as to meet the demand of business development, the Company has established the "Operation Guidelines on Staff Training Management" and "Operation Guidelines on Staff Internal Transfer" to standardize the Group's staff training management. At every year end, the Company devises an annual training program for the coming year, which encompasses both internal and external trainings and is tailor made for the operating environment of every department. These training programs are reviewed and adjusted according to the progress of training assessed at the mid-year evaluation. All training programs aim to elevate the employee's efficiency in order to cope with changes in their working environment.

The Company also provides timely induction programs to new recruits, mainly to introduce the Company's history and development, corporate culture, organizational structure, the Company's rules and regulations, office operation platform, workflow and the Company's projects, so that new employees can be soon familiar with the Group's operation and thus improve their efficiency. Management trainee programs are conducted continuously every year. Trainings for management trainees are enhanced through the intensive training in classes and on-the-job training through rotations.

In 2014, the Company has provided 133 training sessions for employees at different levels, with a total of 1,980 participants. These training sessions included internal training totaling 844 hours and external training totaling 264 hours. The total cost amounted to RMB318,646. The contents of the training programs included:

- To enhance the staff of our new Nanning project company's knowledge and understanding about the Company's human resources system, a human resources training program commenced on 22 March 2014 focusing on the introduction of the Company's current human resources system;

- To strengthen the employees' professional knowledge in different aspects of the Company's business so as to enhance their work efficiency, three stages of open training sessions commenced in June 2014, in which elites in the each of the Company's management divisions and professional instructors gave lectures on "Planning and Operation Management", "Ideas and Methods in Structural Design Management" and "Analysis on Landscape Design Control Points";

- To standardize the Company's internal management and elevate the team's capability in execution, the "Elevating Execution Capability in Management" workshop was organized during 23 to 24 August 2014. The training included the understanding of roles in management, target and planning, order and job allocation, authorization and control techniques, team building and internal communication, etc.;

## QUALITY OF WORKING ENVIRONMENT (continued)

3. **Development and Trainings** (continued)

- To provide the employees with better understanding of the legal risks involved in sales of properties, an open seminar titled "Control of Legal Risks in Sales of Commodity Properties – from a Real Estate Company's Perspective" is organized for the sales team of projects ready for sales on 30 August 2014. The training contents included legal risks frequently encountered in sales of commodity properties, legal risks arising from non-compliance with the property-purchase restriction policy and the function and roles of the supplemental contracts in commodity properties contracts;

- To promote the efficiency in project development pathways and the results of operation management, and to ensure the implementation of relevant regulations, the Company has commenced its first round of special training on 13 November 2014. Key points on subject documents including "Standard Project Development Roadmap", "Planning and Management Handbook", "Management of Key Results Handbook", "Meeting Management Handbook", and "Information Collection and Dissemination Management Handbook" were introduced and analyzed;

- To enhance the understanding of Corporate Credit Rating and Property Financial Indicators by various departments, the training seminars on "Corporate Credit Rating" and "Analysis of Property Financial Indicators" were held on 11 December 2014. Through classroom lectures, industry comparison and interactive communication, the participants were able to understand corporate credit rating and the current status of the Company, which also enriched their understanding of the Company's operation and management from a financial perspective.

4. **Incentives and Recognitions**

The Company has established a comprehensive employee assessment system. At the end of each year, every employee's performance is appraised and assessed. As a yardstick for annual bonus payment, the most outstanding employee and the most outstanding team are selected who will be presented with award certificates and monetary rewards as compliments of their contribution to the Company, and all employees are encouraged to strive for the achievement of the Company's objectives. During the year, the Company also offers special awards to teams or employees who have satisfactorily handled unexpected situations with remarkable performance or met working milestones in advance, so as to encourage all other employees to contribute to the Company.

5. **Recruitment and Retaining Talents**

To satisfy the needs arising from the accelerated growth of business of the Company, the Company has been conducting recruitment campaigns online. To strengthen the Company's talent pool, the Company has organized an open recruitment campaign in February. Appropriate candidates of various talents were selected to participate in the second round of interview. The Company also organizes campus career talks regularly in different institutes, so as to enlarge the Company's reserve of talents to fill up job vacancies.

To resolve the Group's problems such as lack of talents to fill key positions, loss of talents on key positions and lack of trained talents, the Company has prepared the "Proposal for Formation of Corporate Echelon Talent Pool", for the improvement of the Group's human resources allocation, optimization of talent reserve mechanism, so as to implement a succession plan and a talent reserve plan for key positions.

## QUALITY OF WORKING ENVIRONMENT (continued)

5. **Recruitment and Retaining Talents** (continued)

   The Company has also established the "Employee Share Options Scheme" in which share options are granted to the employees so that the results and performance of the Company are linked to the employees' individual performance. The program aims to push forward the Group's long term objectives by rewarding employees who have contributed in the company for a long period of time and acting as a means to recruit and retain outstanding people.

6. **Employee's Relation**

   To enhance team building, improve sense of belonging, develop employer-employee relationships, and facilitate better communication between departments, the Company organizes annual outings and project study delegation teams every year in order to enhance connection between employees from the Guangzhou headquarters and project companies. In November, the Company has also organized a Fun and Sports Day for the Group's employees to promote interaction between co-workers, promote co-operation between departments and improve the relationship between employees and their families. This event has fully demonstrated the teamwork spirit of the "Skyfame's Big Family".

7. **Labour Standard**

   The Group performs its recruitment according to the "Operation Guidelines on Recruitment Management", and fully complies with the labour laws and regulations of the relevant countries or provinces. The Group has strictly followed the regulations that forbid the employment of child labour and forced labour. The Group reviews the execution of recruitment process from time to time in order to prevent any breach of such regulations. Employees must complete the "Employee Registration Form" with accurate personal information (including resume, relevant certificates of education, background of career profile etc.), which are verified by the human resources department or administration office of project company before employment to ensure the legality of the entire recruitment procedure.

## ENVIRONMENTAL PROTECTION

**Environment and Natural Resources**

Property development involves a number of environmental factors, especially land resources. Property development activities inevitably affect the surrounding environment directly or indirectly. Therefore, conflicts always exist between environmental protection and property development. To resolve the conflicts and create constructive interactions between the two, property development plans must adopt designs that are friendly to a city's ecosystem, fitting into a city's current situation to avoid over-development, improving the allocation of social resources, conserving a city's resources in its design and layout, employing reasonable designs of building structures and utilizing energy-saving technologies to lower energy consumption (for example, by selecting plantation types of low water-consumption for greening projects), and ensuring that all environmental details are optimized and conforming to the surroundings.

## ENVIRONMENTAL PROTECTION (continued)

**Environment and Natural Resources (continued)**

Skyfame Group emphasizes the impact of its projects to social development and living standards of the people. From building materials to project design, Skyfame's projects are human-focused and conform to the natural environment. All of the Group's projects-in-progress have inscribed the concept of "Green Construction". A "Green Construction" is a concept that minimize the use of resources (in terms of energy, land, water and building materials), protecting the environment, and minimize pollution, providing a healthy, useful and highly efficient space for the residents, and standing harmoniously with the nature. The Group has been infusing this corporate concept into its construction projects which are in progress, and imposing strict control on the construction works in these projects to ensure adherence to the relevant construction regulations of the government. The overall design of all projects-in-progress focuses to fit in the surrounding natural environment and fully utilize the local natural resources. The construction should be sustainable, eco-friendly and integrated into the nature, with high energy efficiency and should not harm the local eco-system. The interior design of the buildings under construction needs to attend to the full utilization of daylight to save energy. The buildings need to create a sense of proximity to the nature, and should be a healthy living environment. By controlling and lowering the exploitation and destruction to natural environment and resources, the Group endeavors to maintain a balance between the demand from and the contribution to the natural environment.

## OPERATIONS

1. **Supply Chain Management**

   Majority of the construction works and professional technical works under the Group's projects are out-sourced to contractors in form of tenders. The selection process of suppliers and professional services providers is very strict and careful. The Group has set up the "Suppliers Management Program" to regulate the selection, cooperation and management of suppliers, so as to improve the consolidation and results of the Company's external resources, and help achievement of the targets of various development projects and the Company's strategies. With the stable relationship between the Company and its suppliers, no difficulties were encountered in the process of supplier selection, and the requirements in all the development projects were met. As most of the construction materials are procured locally in the place of the development project, there should be no problem to locate an alternative supplier of major construction materials in the event that any supplier is unable to meet the demand of the Group. The Company has compiled the "Operation Guideline on Management of Supplier Resources Pool", "Operation Guideline on Supplier Certification" and "Operation Guideline on Supplier Assessment" and established the supplier management information platform through which information about the suppliers are input to the database by category after qualification assessments or on-site reviews. With the set up and maintenance of the suppliers' database, the information of the suppliers is collected and processed systematically to ensure quality service and products can be delivered to the Company by the suppliers. At the end of each year, the Contract Tender Management Division works with the other management divisions and project companies in reviewing and assessing contract performance of the suppliers and screen out suppliers that have operated with irregularities and cause environmental and social risks to the Company (such as bringing harm to the Company's reputation by causing environmental pollution in the construction sites or employing illegal workers). To ensure that qualified suppliers can provide assurance of their qualities and are of good reputations, the suppliers' ratings are updated to the suppliers' database according to the assessment reports approved by the Group's management.

## OPERATIONS (continued)

**1. Supply Chain Management (continued)**

According to the Company's relevant policies or the contractors' "Regulation on the Maintenance of End-Product after Construction" which was monitored by the Company to set up, the engineering department of project company procures the main contractor to set up a working team to maintain the quality of the end-products by coordinating all its independent sub-contractors in such respects to ensure that the end-products are completed according to the requirements in the relevant contracts, so as to discharge all parties' responsibilities or otherwise impose penalties.

**2. Product Liability**

**Skyfame's Mission:**

The name "Skyfame" means "Harmony with Nature, Reputation on Earth". Since the establishment of Skyfame, it has been committing to developing quality real estates and striving for excellence. From residential to commercial buildings, including Skyfame Tower (now known as HNA Tower) and Guangzhou Skyfame Westin Hotel (now known as Guangzhou HNA Westin Hotel) which were delivered in 2007, Skyfame City in Guiyyang and the Tianyu Huafu Project in Yongzhou which were delivered for occupancy from 2010 to 2014, as well as every other project currently under construction, Skyfame has been following the development needs of the city and the society, and has won the acclaim of the industry and the society. With honesty and integrity as its principle and quality service as its management objectives, the Company has built up its brand and earned the support from customers in all regions with its quality products, market-oriented approach and integrity.

**Past Accomplishments:**

Based in Guangzhou, Skyfame's development strategy is to explore key provinces in Southern China and develop into second-tier cities with growth potential. This demonstrates its strategic targets in upgrading its brand and services. Skyfame delivers its products with integrity and builds its brand with quality service. Throughout its course of development for over ten years, Skyfame's projects have continuously received compliments from local governments. Recent commendations include the following:

- in October 2012, the Tianyu Huafu Project in Yongzhou was awarded "Landmark of Luxurious Residence in Chinese Cities" by the China Architecture Centre;

- in January 2013, the Skyfame City Project in Guiyang was selected as one of the "Ten Fortunate Properties in Guiyang";

- in May 2014, Nanning Skyfame Garden Project was chosen as one of the "Real Estate Projects Receiving the Most Attention in Guangxi 2014" by the Organising Committee of the Guangxi Nanning Real Estate Exposition;

- in December 2014, Guangzhou Skyfame Byland Project won the grand award of "2014 Guangzhou Landmark Residence"; Nanning Skyfame Garden Project received the "Guangxi Top Ten Properties Award", one of the top three laurels of the "Friends of Residence Award" (which is dubbed the "Academy Award" of Guangxi's Property development industry) and was chosen as "The Most Popular Real Estate Project 2014" in the "Best Unit Type Design" category;

- In January 2015, Nanning Skyfame Garden won a "Guangxi Golden Brick Award of Real Estate 2014".

All these awards demonstrate the recognitions of the Skyfame's products and brand.

## OPERATIONS (continued)

**2. Product Liability (continued)**

**Past Accomplishments: (continued)**

Skyfame has always been emphasizing brand-building, for only products that suit the consumers' needs can create a favourable brand-image. Brand image creates a greater social values only when it can imprint on the consumers' memories. Every Skyfame's project is developed according to the local market conditions and geographical environment, tailor-made to meet the demands of the local market, and delivers excellent product with varieties and flexibility.

**Monitoring of Product Quality:**

To ensure that the commodity properties built by the Company comply with the relevant regulations of the government, the Company has compiled the "Operation Guideline on Engineering Quality Control" for the monitoring of construction projects. It is used as a guideline to ensure that construction works comply with the relevant regulations, technical standards and fulfill the requirements as set out in the corresponding construction work/service contracts. The project companies review the construction proposals, quality assurance measures and business qualifications declared by the contractors, conduct site inspections to patrol and make sample-checks on the quality of construction. The Group's Project Management Division provides technical support to project companies in these quality assurance measures.

The Company has also devised the "Operation Guidelines on Indoor Environmental Pollutions Control" to ensure that the construction materials used comply with the Government's regulations and meet environmental indicators. Effective indoor environmental pollution controls are carried out at key stages during the course of construction in order to prevent the delivery of unqualified products to customers. Departments responsible for procurement and tendering are required to comply with the Company's guidelines and the Government's relevant regulations when setting up procurement and out-source contracts. Project companies are responsible to monitor the radon concentration in soil and examine the delivered materials according to environmental protection indicators. They are also responsible to perform tests on indoor environment contamination rates and emission rates of materials that may cause pollution before being put in use, and monitor the concentration of pollutants before acceptance of completed works.

**Customers' Feedback:**

To elevate the standard of the Company's products, services, and management, and to enhance product quality and service, it is important to ensure that customers' complaints are resolved in a timely, accurate and reasonable manner. In order to refine the company's products and service continuously, the Company has set up the "Codes for Customers' Complaints Handling". The Company's Sales and Marketing Management Division is responsible for receiving customers' complaints and transferring complaint cases to relevant sub-division of customer service for follow-up and seeking resolutions within designated time. The response rate requirement is 100% and the complaint channels include the Group's Customer Service Division (with complaint and suggestion mail boxes (tousu@tianyudc.com and tydc110@163.com) and hotlines ((86-20) 2208 2803 and 2208 2827)), the sales department and property management of the project companies and the Company's website (www.tianyudc.com). The Company has also formulated the "Customer Satisfaction Monitoring Program" for the investigation and understanding of customers' satisfaction on the quality of products and the services provided by the Company during the Company's course of development, sales and after-sales process. Corrections and preventive measures are formulated according to the results obtained from the program in order to maintain and improve customers' satisfaction continuously.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through its board of directors (the "**Board**") and various committees with designated functions.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2014 financial statements, in compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except for the following deviations:

**Code Provision A.2.1 – Chairman and Chief Executive**

The roles of chairman and chief executive officer of the Company is not separated as required but is currently dually performed by Mr. YU Pan since 2004.

Explanation on the deviation is elaborated below under the heading of "Segregation of the Management of the Board and the Management of the Group's Business".

**Code Provision E.1.2 – Chairman Attending Annual General Meeting**

Mr. YU Pan, the Chairman of the Board, was unable to attend the annual general meeting held on 10 June 2014 (the "**AGM**") due to other business engagements. Mr. WEN Xiaobing, the Deputy Chief Executive Officer, acted as chairman of the AGM which was properly convened to ensure effective communication with the shareholders of the Company at the AGM.

## BOARD OF DIRECTORS

As at 31 December 2014, the Board comprised seven Directors as follows:

**Executive Directors**

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. WONG Lok

**Non-executive Director**

Mr. ZHONG Guoxing

**Independent Non-executive Directors**

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

The terms of service of all the Independent Non-executive Directors are one year and are subject to automatic renewal and retirement provision under the bye-laws of the Company.

## BOARD OF DIRECTORS (continued)

The Board held ten meetings in 2014. The record of attendance of each Director in board meetings and the AGM is as follows:

| Name of Director | Number of Board Meetings Attended/Held | Attendance Rate | Attended the annual general meeting on 10 June 2014 |
|---|---|---|---|
| *Executive Directors* | | | |
| Mr. YU Pan *(Chairman and Chief Executive Officer)* | 9/10 | 90% | – |
| Mr. WEN Xiaobing *(Deputy Chief Executive Officer)* | 10/10 | 100% | ✓ |
| Mr. WONG Lok | 8/10 | 80% | – |
| *Non-executive Director* | | | |
| Mr. ZHONG Guoxing | 2/10 | 20% | – |
| *Independent Non-executive Directors* | | | |
| Mr. CHOY Shu Kwan | 9/10 | 90% | ✓ |
| Mr. CHENG Wing Keung, Raymond | 10/10 | 100% | ✓ |
| Ms. CHUNG Lai Fong | 9/10 | 90% | ✓ |
| Overall Attendance Rate | | 81% | 57% |

The Board is responsible for formulating and reviewing the long-term business directions and strategies, monitoring the operating and financial performance of the Group, and performing the corporate governance functions. Management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interact frequently to ensure efficient communications between the parties.

To the best knowledge of the Company, there is no financial, business and family relationship amongst the members of the Board, save as Mr. Wen Xiaobing is the executive director and legal representative of 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited), a PRC incorporated company of which the Chairman of the Company, Mr. YU Pan, is the controlling shareholder.

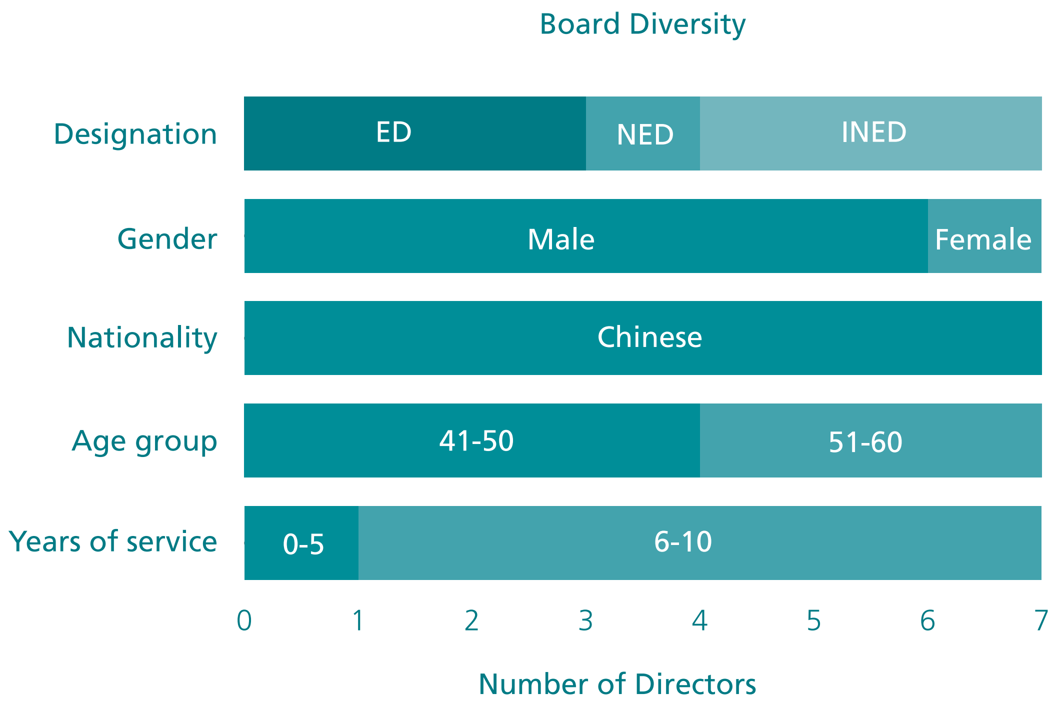
The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities of the Group.

# CORPORATE GOVERNANCE REPORT

## BOARD DIVERSITY POLICY

The Nomination Committee has formulated a board diversity policy which was adopted by the Board in August 2013. The Board recognizes the contribution that diversification of the Board can enhance the quality of its performance but considers that it would be inappropriate to set targets on the diversity on the ground that all appointments of directors will be made on merit and individual basis. Notwithstanding, gender and other diversity issues will be taken into consideration when evaluating the skills, knowledge and experience of any candidate to fill any vacancy at the Board and candidates will be considered against contribution that he/she will bring to the Board, and at the same time with due regard to the diversity on the Board.

As at the date of this report, the Board's composition under major diversified perspectives is summarized as follows:




ED: Executive Director
NED: Non-executive Director
INED: Independent Non-executive Director

## DIRECTORS' RESPONSIBILITY IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements on a going concern basis which give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct for Securities Transactions by Directors and Relevant Employees of the Company (the "**Code**") on terms no less exact than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules and the Code is updated from time to time in accordance with the Listing Rules requirements. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Code throughout the year under review.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHENG Wing Keung, Raymond, Mr. CHOY Shu Kwan and Ms. CHUNG Lai Fong have been appointed as independent non-executive directors of the Company since December 2004 and have served the Company for more than nine years up to the financial year ended 31 December 2013. In compliance with the Code Provision A.4.3 of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules, their further appointments were approved by shareholders under separate resolutions at the AGM held on 10 June 2014. Other than carrying out the duties as set out in the terms of reference of board committees and in accordance with the requirement of the Listing Rules, they have not been involved in the daily operations and business decisions making of the Company. Other than the share options granted by the Company pursuant to the share option scheme of the Company adopted in 2005 which are detailed in Note 39 of the financial statements, they have not been interested or deemed to be interested in any Shares of the Company and its associated corporation. The Board is of the opinion that they maintain an independence view of the Company's affairs and are able to carry out their duties as independent non-executive directors in an impartial manner.

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

## DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company has provided resources and supports to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 December 2014, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

## DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT (continued)

The training each Director received during the year ended 31 December 2014 is summarized as below:

| Name of Director | Reading materials regarding regulatory update and corporate governance matters | Attending seminars/in-house workshops relevant to the Company's business, Listing Rules compliance, directors' duties and risk management |
|---|---|---|
| *Executive Directors* | | |
| Mr. YU Pan *(Chairman and Chief Executive Officer)* | ✓ | ✓ |
| Mr. WEN Xiaobing *(Deputy Chief Executive Officer)* | ✓ | ✓ |
| Mr. WONG Lok | ✓ | – |
| *Non-executive Director* | | |
| Mr. ZHONG Guoxing | ✓ | – |
| *Independent Non-executive Directors* | | |
| Mr. CHOY Shu Kwan | ✓ | ✓ |
| Mr. CHENG Wing Keung, Raymond | ✓ | ✓ |
| Ms. CHUNG Lai Fong | ✓ | ✓ |

## SEGREGATION OF THE MANAGEMENT OF THE BOARD AND THE MANAGEMENT OF THE GROUP'S BUSINESS

In pace with the business development and growth of the Group, the Group currently maintains a relatively small but efficient staff force in the management team to take care of the daily operations of the property development business. Both the roles of the Chairman of the Board and Chief Executive Officer who leads the management of the Company are currently played by Mr. YU Pan. The Board considers the current simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out clearer division of responsibilities at the board level and the management team to ensure a proper segregation of the management of the board of the Company and the management of the Group's business.

## CORPORATE GOVERNANCE FUNCTIONS

The board has established four Board committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committees and Risk Management Committee. The Risk Management Committee was newly setup in December 2014 for looking into particular risks that are encountered or may be encountered by the Group and develop policies and measures to overcome these risks. All Board committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkex.com and the Company's website at www.tianyudc.com.

## CORPORATE GOVERNANCE FUNCTIONS (continued)

All Board committees meet regularly and are provided with sufficient resources to perform their duties. The committee members can seek independent professional advice at the Company's expense upon reasonable request.

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Code which includes the following:

(i) to develop, review and monitor the Group's policies on corporate governance and compliance with legal and regulatory requirements;

(ii) to review and monitor the training and continuous professional development of directors;

(iii) to develop, review and monitor the code of conduct applicable to the employees and Directors; and

(iv) to review the Group's compliance with the corporate governance code and disclosure requirements in the Corporate Governance Report.

The Board has reviewed the Corporate Governance Report to ensure its compliance with the disclosure requirements as set out in the Appendix 14 to Listing Rules. The Company has issued "Policies on Preservation and Disclosure of Price Sensitive Information" in May 2013 in order to comply with the requisite inside information disclosure requirements as specified under the Securities and Futures Ordinance and the Listing Rules.

## REMUNERATION COMMITTEE

As at 31 December 2014, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

The Remuneration Committee held one meeting in March 2014 and all the members attended the meeting. The matters discussed included (i) the review of the remuneration policy of the Group's directors and senior management; and (ii) the review of incentive bonus paid to directors and senior management for 2013.

The major roles and functions of the Remuneration Committee are as follows:

1. to make recommendations to the Board on the overall remuneration policy structured for all directors and senior management;

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved;

3. to make recommendations to the Board on the remuneration of individual executive director and senior management;

4. to make recommendations to the Board on the remuneration of non-executive directors;

## REMUNERATION COMMITTEE (continued)

5. to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment; and

6. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct and removal of directors.

## NOMINATION COMMITTEE

As at 31 December 2014, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The Nomination Committee held one meeting in March 2014 and all members attended. The matters discussed included (i) the review of the size, structure and composition of the Board; (ii) the assessment of the independence of independent non-executive directors; and (iii) the recommendation of retiring Directors for re-election in 2014 Annual General Meeting.

The major roles and functions of the Nomination Committee are as follows:

1. to set up the fundamental and objective standards required from directors;

2. to select or make recommendations to the Board on the procedures of appointment of directors, and the selection from individuals nominated for directorship;

3. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Group's corporate strategies;

4. to assess the independence of independent non-executive directors;

5. to make recommendations to the Board on the appointment or re-appointment of directors and succession plan for directors, in particular the chairman and the chief executive;

6. to review and approve the policy on part-time work performed for orgainisations outside the Group by directors and senior management; and

7. to formulate board diversity policy taking into account of gender, age, tenure, culture, industry experience, educational and professional background required on the Board.

## AUDIT COMMITTEE

As at 31 December 2014, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

## AUDIT COMMITTEE (continued)

The Audit Committee held three meetings in March, August and December 2014 to which all members attended. The matters discussed in the meetings included: (i) reviewing the financial statements of the Company for the year ended 31 December 2013 and the six months ended 30 June 2014 before submission to the Board for approval; (ii) considering the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) reviewing the effectiveness of the Group's internal controls with discussion with the Chief Internal Auditor; (iv) reviewing the 2015 work plan of Internal Audit Department; and (v) considering the setup of the Risk Management Committee in respect of the proposed amendment of the Corporate Governance Code relating to internal controls. The representatives of the external auditor were present at the meetings held on 12 December 2014 and 24 March 2014 and discussed with the committee members, amongst the other agendas, the scope of audit and presented their findings on major issues to the committee members on the audit of the financial statements for the year ended 31 December 2013. Both the annual results for the year ended 31 December 2013 and the interim result for the six months ended 30 June 2014 have been reviewed by the Audit Committee before presenting to the Board for approval.

The major roles and functions of Audit Committee are as follows:

1. to review the integrity of accounts and financial reporting procedures;

2. to review and oversee the effectiveness of internal control systems;

3. to appoint external auditors and assess their qualifications, independence and performance; and

4. to review periodically the Company's and the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

## AUDITORS' REMUNERATION

BDO Limited was re-appointed by the shareholders as the Company's auditor during 2014. Their engagement of the audit for 2014 was reviewed and approved by the Audit Committee on a meeting held on 12 December 2014.

During the year under review, the remuneration paid/payable to the Company's auditor is set out as follows:

| **Nature of service** | **Fees** *(Reminbi)* |
|---|---|
| Audit services | |
| – Current year | 887,000 |
| Non-audit services | |
| – Accountancy report and other services *(note)* | 404,000 |
| – Disbursements | 41,000 |
| TOTAL | 1,332,000 |

*Note:* The services provided was for the review of a statement of indebtedness and working capital forecast of the Group in connection with the Company's circular dated 23 April 2014 in relation to a very substantial disposal transaction of the Company.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with shareholders of the Company and understand that the Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and committee members and the external auditor, where appropriate, are present to answer shareholders' questions in the meetings. Meeting circulars are distributed to all shareholders before the annual general meeting and special general meetings in accordance with the timeline requirement as laid down in the Listing Rules and the bye-laws of the Company. All the resolutions proposed to be approved at the general meetings are taken by poll. The chairman of the meeting and/or the company secretary of the Company explains the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. Independent scruitineers are engaged to supervise the entire process of the voting. An announcement of the results of the poll will be published in the Stock Exchange's and Company's websites.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has defined policy, namely the "Policies on Preservation and Disclosure of Price Sensitive Information", to govern the release of price sensitive information to the public in an equal, timely and effective manner to enable shareholders' easy appraisal of the Company's performance and business development. The Company has made prompt releases of information about the business and other affairs of the Group to the public and announced its annual and interim results in a timely manner within the time limits as laid down in the Listing Rules.

The 2015 annual general meeting will be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong•Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Tuesday, 9 June 2015 at 3:00 p.m..*

## SHAREHOLDERS' RIGHTS

To protect the rights of shareholders to have reasonable involvements in the Company's affairs, the bye-laws of the Company and applicable laws in Bermuda (the place of incorporation of the Company) provide shareholders the following rights about the holding of general meetings of the Company:

**Rights to convene a special general meeting**

Pursuant to Bye-law 58 of the Company, members of the Company, 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 Board or the secretary 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 (2) months after the deposit of each requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

## SHAREHOLDERS' RIGHTS (continued)

**Procedures for putting forward proposals at shareholders' meeting**

Subject to Section 79 of The Companies Act 1981 of Bermuda, it shall be the duty of the Company, on the requisition in writing of (i) either any number of members representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred members, at the expense of the requisitionists:

(a) to give to members of the company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution shall be deposited to the Company's registered office or principal place of business in Hong Kong not less than six weeks before the meeting (in the case of a requisition requiring notice of a resolution); and not less than one week before the meeting (in the case of any other requisition) together with a sum reasonably sufficient to meet the Company's expenses in sending the notice.

Upon receiving the requisition, the Company would take appropriate actions and make necessary arrangements in accordance with the requirements under the provision of the Company's Bye-laws and Sections 79 and 80 of The Companies Act 1981 of Bermuda.

**Company's contact details**

*For general enquires:*

Shareholders and other stakeholders may send their enquiries, concerns and requisitions to the Board by addressing them to (i) the company secretary of the Company at the principal place of business in Hong Kong at Unit 1401, 14/F., AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com or (ii) the customer officer at the head office in Guangzhou at 33/F., HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, the PRC (Postage code: 510610), or by telephone to (86-20) 2208 2888, or by fax to (86-20) 2208 2777.

*For suggestions and complaints:*

All the suggestions and complaints can be sent to our Hong Kong and Guangzhou offices as stated above or through the Company's website at www.tianyudc.com. The Company has set up separate mail boxes (tousu@tianyudc.com and tydc110@163.com) and telephone lines ((86-20) 2208 2803 and 2208 2827) to receive shareholders' and other stakeholders' suggestions and complaints which are served by a designated officer in the Guangzhou head office.

## INTERNAL CONTROLS/RISK MANAGEMENT

The Board has overall responsibilities for maintaining sound and effective risk management and internal control systems of the Group. The management is responsible for designing a system of well-defined policies, procedures and controls and execute them from time to time. The internal audit department is the designated department set up to ensure these systems are functioning. The Group's system of internal control includes a defined management structure with clear lines of reporting, limits of authority that are designed to help the Group achieve its business strategies, identify significant business risks, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information, and comply with relevant laws and regulations. Overall, the internal control systems of the Group are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to mitigate failure in material aspects in the Group's operations. The management provides assurance to the Board on the effectiveness of these systems.

The internal audit department and the risk management team are the designated operating units set up in the Group which play a dominate role to ensure these systems are functioning.

**Risk Management Committee**

The Board has set up the Risk Management Committee in December 2014. The Risk Management Committee comprises one executive director, Mr. WEN Xiao Bing and three independent non-executive directors, namely Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. The committee delegates its routine monitoring function to the Risk Management Officer who, through the routine audit work undertaken by the internal audit department, reports to the committee on a regular basis as to how the risk management control procedures are conducted by the management. Work on defining the significant risk factors and development of controls to avoid or alleviate risks was commenced in early 2015 and the first meeting of the Risk Management Committee is scheduled to be held in August 2015 to review the progress of the work done.

The major roles and functions of Risk management Committee are as follows:

1. to monitor and review the risk management system and advise to the Board about the effectiveness of and improvements to be made to the existing system;

2. to provide guidelines to the management for risk management and set up procedures to unveil, assess and manage material risk factors; and ensure management discharges its responsibility to implement an effective risk management system;

3. to review the internal control policies in respect of the risk management;

4. to analyse the result of the material investigations on the risk management and management's feedback on the investigation; and report and provide to the Board with the findings of deficiencies of the existing risk controls and recommendations on improvements;

5. to ensure the risk management is embedded in the structure and culture of the management team; and

6. to review and report annually to the Board the effectiveness of the risk management system.

## INTERNAL CONTROLS/RISK MANAGEMENT (continued)

**Regular Review of the Internal Control System**

The Board has complied with the code provision as set out in the Appendix 14 to the Listing Rules on internal control of the Group during the year 2014 and assessed the effectiveness of the internal control system of the Group for the year ended 31 December 2014 through regular interactions with the internal auditor and the Audit Committee. The Chief Internal Auditor reports to the Chairman of the Board regularly and periodically to the Board through the Audit Committee with findings on regular and special internal audits. He develops the work plan for the year 2015 in late 2014 which was approved by the Audit Committee setting out the objectives and scopes of the audit work to be undertaken. The audit covers testing on controls over financial, operation and compliance aspects of the Group. In the audit reports issued by the internal audit department, the Chief Internal Auditor highlights deficiencies in controls and makes recommendations on the internal control systems. The 2013 annual and 2014 interim internal audit reports issued by the internal audit department during the year 2014, comprising the details of audit work and findings of all assignments performed by the department, have been reviewed and discussed by the Audit Committee during the two audit committee meetings held in March and August 2014 respectively. In the audits performed in the year, the Chief Internal Auditor identifies no material issues, but points out potential risks and areas for improvements and recommends to the management the remedial actions to be taken by the management team. The internal audit department consistently follows up those highlighted issues with the departments covered by the audits to ensure proper improvement measures are executed by management and also the follow-up results are reported in its audit reports. Based on the audit findings and management responses noted from the assignments, though enhancements are required to be taken for further improvements, the Board considers that the existing internal control system is effective and adequate in controlling the operations and safeguarding the assets of the Company, prevent irregularities and in material aspects protect the interests of its shareholders.

# DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries during the year are property development, property investment and property management.

## SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and comprehensive income on page 51.

The Company does not have distributable reserve available for payment of dividend in respect of the year ended 31 December 2014.

## SHARE CAPITAL

There was no movement in the share capital of the Company during the year ended 31 December 2014.

Details of the Company's share capital during the year are set out in note 37(a) to the financial statements.

## SHARE OPTIONS

The share option scheme was adopted on 4 August 2005 (the "**2005 Scheme**").

On 22 August 2006 and 11 August 2011, the Company granted 63,850,000 and 26,000,000 options respectively to subscribe for the Company's shares under the 2005 Scheme. During the year ended 31 December 2014, 9,279,312 options lapsed due to resignation of two holders of such options. There were in total 46,917,870 share options outstanding as at 31 December 2014.

Details of the share options scheme are set out in note 39 to the financial statements.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 38 to the financial statements.

## DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2014, the Company's distributable reserves amounted to a deficiency of RMB185.1 million (net of the Company's contributed surplus of RMB16.1 million). Thus, the Company does not have reserve available for cash distribution and/or distribution in specie as computed in accordance with generally accepted accounting principles of Hong Kong. Nonetheless, the Company's share premium account in the amount of approximately RMB1,507.2 million can be distributed to shareholders of the Company in the form of fully paid bonus shares.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

## WARRANTS

Details of movements in warrants issued by the Group are set out in note 33(e) to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

None of the customers of the Group contributed more than 10% of the Group's revenue for the year.

The aggregate procurement attributable to the Group's largest supplier and five largest suppliers accounted for approximately 42.9% and 81.3%, respectively, of the Group's total procurement for the year.

To the knowledge of the Directors, none of the Directors and their associates, or any shareholders who own more than 5% of the Company's share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## DIRECTORS AND THEIR SERVICE CONTRACTS

The Directors during the year and up to the date of this report were as follows:

**Executive Directors**
Mr. YU Pan *(Chairman and Chief Executive officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. WONG Lok

**Non-executive Director**
Mr. ZHONG Guoxing

**Independent Non-executive Directors**
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

Mr. YU Pan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong will retire from office at the forthcoming annual general meeting and being eligible, will offer themselves for re-election in accordance with bye-law 87(1) of the Company's bye-laws and the Corporate Governance Code.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN CONTRACTS

Except as those disclosed in the section of "Connected Transactions" of the report hereinafter, no contracts of significance to which the Company, its holding company or 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.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into with directors or existed during the year.

## SPECIFIC PERFORMANCE BY THE CONTROLLING SHAREHOLDERS

Pursuant to a bond instrument executed by the Company on 18 October 2013, the Company agreed that for so long as any of the exchangeable bonds in the principal amount of HK$298,000,000 (the "**Exchangeable Bonds**") issued by the Company on 10 October 2013 remains outstanding, it will procure that Mr. YU Pan, the controlling shareholder of the Company, (i) shall be an executive director of the Company unless waiver or alterative agreement has been reached between the Company and the holders of the Exchangeable Bonds holding an aggregate of not less than 75% of the Exchangeable Bonds then outstanding and (ii) shall hold at least 50% of the issued share capital and/or voting rights of the Company.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

**(a) Interests in the Shares or underlying Shares**

| Name of Director | Company/ Associated corporation | Capacity | Number of Shares or underlying Shares *(note 1)* | Approximate shareholding percentage *(note 2)* |
|---|---|---|---|---|
| Mr. YU Pan | Company | Interest of controlled corporation and/or beneficial owner | 1,587,168,407 (long)<br>52,176,635 (short) | 71.61%<br>2.35% |

*Notes:*

1. These Shares comprised (i) 141,504,000 existing Shares; and (ii) 1,445,664,407 existing Shares held directly by Grand Cosmos Holdings Limited ("**Grand Cosmos**"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. YU Pan. The 1,587,168,407 Shares were charged in favour of Magic Sky Enterprises Holdings Inc. ("**Magic Sky**") by way of a share charge dated 10 October 2013. In addition, Grand Cosmos has issued warrants to Magic Sky to purchase Shares from Grand Cosmos in aggregate of HK$30,000,000 at a purchase price of HK$0.57497 for 52,176,635 Shares.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2014.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

**(b) Interests in underlying Shares arising from share options**

As at 31 December 2014, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme:

| Name of Director | Exercise price (adjusted) (HK$) *(note 1)* | Exercise period | Number of underlying Shares *(note 1)* | Approximate shareholding percentage *(note 2)* |
|---|---|---|---|---|
| Mr. WEN Xiaobing | 1.2565 | 13 March 2007 to 31 July 2015 | 5,213,097 | 0.24% |
| | 0.6714 | 11 August 2012 to 10 August 2021 | 5,213,097 | 0.24% |
| Mr. CHOY Shu Kwan | 1.2565 | 13 March 2007 to 31 July 2015 | 625,571 | 0.03% |
| Mr. CHENG Wing Keung, Raymond | 1.2565 | 13 March 2007 to 31 July 2015 | 625,571 | 0.03% |
| Ms. CHUNG Lai Fong | 1.2565 | 13 March 2007 to 31 July 2015 | 625,571 | 0.03% |

*Notes:*

1. As a result of the issue of 738,843,725 Shares by way of rights on the basis of one rights Share for every two Shares in issue and held on 31 May 2012 (the "**Rights Issue**") and in compliance with Rule 17.03(13) of the Listing Rules, the exercise price and the number of Shares to be issued under the outstanding Share Options were adjusted under the terms of 2005 Scheme with effect from 28 June 2012 when the Rights Issue was completed.

2. For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2014.

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the option holding disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2014, Mr. YU Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely 綠景控股股份有限公司 (Lvjing Holding Co., Ltd.) which is engaged in the residential real estate development business in the mass market in the PRC. Save as the aforesaid, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

Pursuant to a deed of non-competition dated 6 July 2006, Mr. YU Pan has undertaken to the Company that for so long as he remains as a Director or a controlling shareholder of the Company, all enquiries and actual or potential business opportunities received by him (and/or his associates) in relation to property development, project management and property investment in the PRC shall be referred, offered or made available to the Group by Mr. YU to the Company on a timely basis.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2014, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

**Interests in the Shares or underlying Shares**

| Name of Shareholder | Capacity | Number of Shares and underlying Shares | Approximate shareholding percentage *(note 3)* |
|---|---|---|---|
| Sharp Bright | Interest of controlled corporation | 1,445,664,407 (long)<br>52,176,635 (short)<br>*(note 1)* | 65.22%<br>2.35% |
| Grand Cosmos | Beneficial owner | 1,445,664,407 (long)<br>52,176,635 (short)<br>*(note 1)* | 65.22%<br>2.35% |
| China Orient Asset Management Corporation ("**COAMC**") | Interest of controlled corporation | 1,639,345,042 (long)<br>*(note 2)* | 73.95% |
| Magic Sky | Beneficial owner and/ or person having a security interest in shares | 1,639,345,042 (long)<br>*(note 2)* | 73.95% |

## SUBSTANTIAL SHAREHOLDERS (continued)

*Notes:*

1. The 1,445,664,407 existing Shares were held directly by Grand Cosmos and Grand Cosmos has issued warrants to Magic Sky to purchase Shares from Grand Cosmos in aggregate of HK$30,000,000 at a purchase price of HK$0.57497 for 52,176,635 Shares. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 1,445,664,407 Shares together with 141,504,000 Shares held by Mr. YU Pan were charged in favour of Magic Sky by way of a share charge dated 10 October 2013.

2. These Shares comprised (i) 1,587,168,407 Shares charged in favour of Magic Sky by Grand Cosmos and Mr. Yu Pan; (ii) 52,176,635 underlying Shares which would be transferred upon exercise of purchase rights attaching to the warrants issued by Grand Cosmos to Magic Sky at a purchase price of HK$0.57497. Magic Sky is an indirect wholly owned subsidiary of of COAMC. Accordingly, COAMC was deemed to be interested in the Shares in which Magic Sky were interested by virtue of the SFO.

3. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2014.

Save as disclosed above, as at 31 December 2014, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

## CONNECTED TRANSACTIONS

Save as the transactions stated in note 46 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2014 which was significant in relation to the business of either the Group or has any material personal interest.

## RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 41 to the 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.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 134.

# DIRECTORS' REPORT

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirmed that the Company has maintained the prescribed amount of public float as required under the Listing Rules during the year and up to the date of this report.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the events after the end of the reporting period are set out in note 49 to the financial statements.

## AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

**YU Pan**
*Chairman*
Hong Kong, 20 March 2015

# INDEPENDENT AUDITOR'S REPORT

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**TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 51 to 133, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other 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.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act, 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 auditor's 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 auditor considers 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 AUDITOR'S 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 loss 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.

**BDO Limited**
*Certified Public Accountants*
**CHAN Wing Fai**
*Practising Certificate Number P05443*

Hong Kong, 20 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 7 | **157,870** | 675,706 |
| Cost of sales and services | | **(123,879)** | (545,994) |
| Gross profit | | **33,991** | 129,712 |
| Other income and gains, net | | **5,505** | 9,667 |
| Sales and marketing expenses | | **(23,087)** | (19,143) |
| Administrative and other expenses | | **(102,333)** | (66,497) |
| Fair value changes in investment properties | 18 | **(38,822)** | 36,102 |
| (Write-down)/reversal of write-down of properties under development/properties held for sale | 24 | **(38,759)** | 23,572 |
| Impairment loss on goodwill | 20 | **–** | (313) |
| Gain from bargain purchase | 40(b) | **1,600** | – |
| Gain on early redemption of promissory notes | | **–** | 4,152 |
| Fair value changes in derivative financial asset/liabilities | | **2,245** | (3,957) |
| Loss on disposal of subsidiaries, net of tax | 40(c) | **(15,830)** | – |
| Finance costs | 8 | **(1,871)** | (758) |
| Finance income | 8 | **9,035** | 28,374 |
| **(Loss)/profit before income tax** | 9 | **(168,326)** | 140,911 |
| Income tax credit/(expense) | 13 | **8,346** | (28,238) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(159,980)** | 112,673 |
| **Other comprehensive income, items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences arising on foreign operations | | **(325)** | 284 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **(160,305)** | 112,957 |
| **(Loss)/profit for the year attributable to:** | | | |
| – Owners of the Company | 14 | **(141,252)** | 63,989 |
| – Non-controlling interests | | **(18,728)** | 48,684 |
| | | **(159,980)** | 112,673 |
| **Total comprehensive income for the year attributable to:** | | | |
| – Owners of the Company | | **(141,577)** | 64,273 |
| – Non-controlling interests | | **(18,728)** | 48,684 |
| | | **(160,305)** | 112,957 |
| **(Loss)/earnings per share – Basic and diluted** | 15 | **(RMB0.064)** | RMB0.029 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **271,993** | 159,450 |
| Investment properties | 18 | **556,533** | 710,826 |
| Properties under Tianhe Project | 19 | **777,090** | 768,130 |
| Goodwill | 20 | **13,554** | 13,554 |
| Derivative financial asset | 33 | **–** | 2,076 |
| Consideration receivable | 23 | **105,000** | 105,000 |
| | | **1,724,170** | 1,759,036 |
| **Current assets** | | | |
| Properties under development | 24 | **3,828,284** | 2,262,709 |
| Properties held for sale | 25 | **125,526** | 173,395 |
| Trade and other receivables | 27 | **467,037** | 453,931 |
| Short term investments | 28 | **244,000** | – |
| Restricted and pledged deposits | 29 | **334,844** | 57,660 |
| Cash and cash equivalents | 30 | **201,105** | 300,516 |
| | | **5,200,796** | 3,248,211 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | **228,774** | 228,740 |
| Properties pre-sale deposits | | **1,461,340** | 571,377 |
| Bank and other borrowings – current portion | 33 | **1,305,610** | 300,885 |
| Derivative financial liabilities – current portion | 33 | **32** | 23,963 |
| Loans from non-controlling shareholders of a subsidiary | 34 | **–** | 84,803 |
| Income tax payable | | **64,971** | 65,801 |
| | | **3,060,727** | 1,275,569 |
| **Net current assets** | | **2,140,069** | 1,972,642 |
| **Total assets less current liabilities** | | **3,864,239** | 3,731,678 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank and other borrowings – non-current portion | 33 | **969,217** | 632,542 |
| Derivative financial liabilities – non-current portion | 33 | **–** | 3,829 |
| Consideration from disposal of Tianhe Project | 35 | **990,360** | 990,360 |
| Deferred tax liabilities | 36 | **169,048** | 179,298 |
| | | **2,128,625** | 1,806,029 |
| **Net assets** | | **1,735,614** | 1,925,649 |
| **Capital and reserves** | | | |
| Share capital | 37 | **21,068** | 21,068 |
| Reserves | 38 | **1,688,986** | 1,828,913 |
| **Equity attributable to owners of the Company** | | **1,710,054** | 1,849,981 |
| **Non-controlling interests** | | **25,560** | 75,668 |
| **Total equity** | | **1,735,614** | 1,925,649 |

On behalf of the Board

| **YU Pan** | **WEN Xiaobing** |
|---|---|
| *Director* | *Director* |

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | *21* | **3,323,108** | 2,728,031 |
| Derivative financial asset | *33* | **–** | 2,076 |
| | | **3,323,108** | 2,730,107 |
| **Current assets** | | | |
| Amounts due from subsidiaries | *21* | **2,298** | 3,239 |
| Prepayments and other receivables | | **8,695** | 387 |
| Cash and cash equivalents | *30* | **18,523** | 55 |
| | | **29,516** | 3,681 |
| **Current liabilities** | | | |
| Accruals and other payables | | **14,716** | 3,651 |
| Amounts due to subsidiaries | *21* | **1,409,513** | 773,200 |
| Other borrowings – current portion | *33* | **422,642** | 228,768 |
| Derivative financial liabilities – current portion | *33* | **32** | 23,963 |
| | | **1,846,903** | 1,029,582 |
| **Net current liabilities** | | **(1,817,387)** | (1,025,901) |
| **Total assets less current liabilities** | | **1,505,721** | 1,704,206 |
| **Non-current liabilities** | | | |
| Other borrowings – non-current portion | *33* | **150,457** | 224,034 |
| Derivative financial liabilities – non-current portion | *33* | **–** | 3,829 |
| | | **150,457** | 227,863 |
| **Net assets** | | **1,355,264** | 1,476,343 |
| **Capital and reserves** | | | |
| Share capital | *37* | **21,068** | 21,068 |
| Reserves | *38* | **1,334,196** | 1,455,275 |
| **Total equity** | | **1,355,264** | 1,476,343 |

On behalf of the Board

| | |
|---|---|
| **YU Pan** | **WEN Xiaobing** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RMB'000 | Share premium RMB'000 | Contributed surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Property revaluation reserve RMB'000 | Merger reserve RMB'000 | Statutory reserves RMB'000 | Foreign exchange reserve RMB'000 | Other/ capital reserve RMB'000 | Retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2013 | | 21,068 | 1,507,182 | 16,116 | 13,674 | 34,499 | (293,095) | 6,471 | (371) | 7,351 | 471,538 | 1,784,433 | 18,484 | 1,802,917 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 63,989 | 63,989 | 48,684 | 112,673 |
| Other comprehensive income | | – | – | – | – | – | – | – | 284 | – | – | 284 | – | 284 |
| Total comprehensive income for the year | | – | – | – | – | – | – | – | 284 | – | 63,989 | 64,273 | 48,684 | 112,957 |
| Contribution from non-controlling shareholders of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | 8,500 | 8,500 |
| Recognition of equity-settled share-based payment expenses | | – | – | – | 1,275 | – | – | – | – | – | – | 1,275 | – | 1,275 |
| Reallocation of lapsed options from share-based payment reserve to retained profits | | – | – | – | (1,444) | – | – | – | – | – | 1,444 | – | – | – |
| **At 31 December 2013 and 1 January 2014** | | **21,068** | **1,507,182** | **16,116** | **13,505** | **34,499** | **(293,095)** | **6,471** | **(87)** | **7,351** | **536,971** | **1,849,981** | **75,668** | **1,925,649** |
| Loss for the year | | – | – | – | – | – | – | – | – | – | (141,252) | (141,252) | (18,728) | (159,980) |
| Other comprehensive expenses | | – | – | – | – | – | – | – | (325) | – | – | (325) | – | (325) |
| Total comprehensive expenses for the year | | – | – | – | – | – | – | – | (325) | – | (141,252) | (141,577) | (18,728) | (160,305) |
| Transfer among reserves | | – | – | – | – | – | – | – | – | (7,351) | 7,351 | – | – | – |
| Arising on acquisition of a subsidiary | *40(b)* | – | – | – | – | – | – | – | – | – | – | – | 112 | 112 |
| Disposals of subsidiaries | *40(c)* | – | – | – | – | – | – | – | – | 743 | – | 743 | (31,492) | (30,749) |
| Recognition of equity-settled share-based payment expenses | | – | – | – | 907 | – | – | – | – | – | – | 907 | – | 907 |
| Reallocation of lapsed options from share-based payment reserve to retained profits | | – | – | – | (2,260) | – | – | – | – | – | 2,260 | – | – | – |
| **At 31 December 2014** | | **21,068** | **1,507,182** | **16,116** | **12,152** | **34,499** | **(293,095)** | **6,471** | **(412)** | **743** | **405,330** | **1,710,054** | **25,560** | **1,735,614** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **Net cash used in operating activities** | *40(a)* | **(1,114,016)** | (514,211) |
| **Investing activities** | | | |
| Interest received | | **2,411** | 7,959 |
| Net cash inflow arising from the acquisition of subsidiaries | *40(b)* | **7,541** | 4,170 |
| Disposal of subsidiaries, net of cash disposed of | *40(c)* | **150,556** | – |
| Acquisition of investment property | | **–** | (86,288) |
| Purchase of property, plant and equipment | | **(9,038)** | (6,412) |
| Proceeds from disposal of property, plant and equipment | | **–** | 59 |
| Acquisition of short term investments | | **(244,000)** | – |
| (Increase)/decrease in restricted and pledged deposits | | **(284,231)** | 194,660 |
| Net cash (used in)/from investing activities | | **(376,761)** | 114,148 |
| **Financing activities** | | | |
| New bank and other borrowings | | **1,994,587** | 664,539 |
| Repayment of bank and other borrowings | | **(590,608)** | (257,576) |
| Repayment of loans from non-controlling shareholders of a subsidiary | | **(12,542)** | (78,797) |
| Loan advance from a related company | | **30,000** | – |
| Repayment of loan advance from a related company | | **(30,000)** | – |
| Capital contributions from non-controlling shareholders of subsidiaries | | **–** | 8,500 |
| Net cash from financing activities | | **1,391,437** | 336,666 |
| **Net decrease in cash and cash equivalents** | | **(99,340)** | (63,397) |
| **Effect of foreign exchange rate changes** | | **(71)** | 710 |
| **Cash and cash equivalents at beginning of year** | | **300,516** | 363,203 |
| **Cash and cash equivalents at end of year** | *30* | **201,105** | 300,516 |

## 1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC; and (c) Unit 1401, 14th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are property development, property investment and property management.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of amendments to HKFRSs – effective 1 January 2014

| | |
|---|---|
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment entities |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK (IFRIC) 21 | Levies |

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

*Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities*

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement. The amendments are applied retrospectively.

The adoption of the amendments has no impact on these financial statements as the Group does not have any offsetting arrangements.

*HK (IFRIC) 21 – Levies*

HK (IFRIC) 21 clarifies that an entity recognizes a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation has been applied retrospectively.

The adoption of HK (IFRIC) 21 has no impact on these financial statements as the interpretation is consistent with the Group's previous application of its accounting policies on provisions.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

**(b) New/revised HKFRSs that have been issued but are not yet effective**

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2010-2012 Cycle[2] |
| HKFRSs (Amendments) | Annual Improvements 2011-2013 Cycle[1] |
| HKFRSs (Amendments) | Annual Improvements 2012-2014 Cycle[3] |
| Amendments to HKAS1 | Disclosure initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[3] |
| Amendments to HKAS 19 (2011) | Defined Benefit Plans: Employee Contributions[1] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[3] |
| HKFRS 9 (2014) | Financial Instruments[5] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| HKFRS 14 | Regulatory Deferral Accounts[3] |
| HKFRS 15 | Revenue from Contracts with Customers[4] |

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning or transactions occurring, on or after 1 July 2014
3 Effective for annual periods beginning, on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2018

*Amendments to HKAS 27 – Equity Method in Separate Financial Statements*

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

*HKFRS 9 (2014) – Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### (b) New/revised HKFRSs that have been issued but are not yet effective (continued)

*HKFRS 9 (2014) – Financial Instruments (continued)*

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

*HKFRS 15 – Revenue from Contracts with Customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

## 3. BASIS OF PREPARATION

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

**(b) Basis of measurement**

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

**(c) Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

**(d) Functional and presentation currency**

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

## 4. PRINCIPAL ACCOUNTING POLICIES

**(a) Business combination and basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

**(b) Subsidiaries**

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

**(c) Joint arrangements**

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures:* where the group has rights to only the net assets of the joint arrangement; or

- *Joint operations:* where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

**(d) Goodwill**

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) Goodwill (continued)

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGUs**") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

### (e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|---|---|
| Leasehold land | 12 to 38 years |
| Buildings | 12 to 30 years |
| Furniture, fixtures and equipment | 2 to 5 years |
| Motor vehicles | 4 to 10 years |

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

**(f) Investment properties**

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

**(g) Properties under development**

Properties under development, including properties under Tianhe Project, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(h) Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

**(i) Capitalisation of borrowing costs**

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(j) Financial instruments**

*(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Financial instruments (continued)

*(i) Financial assets (continued)*

Financial assets at fair value through profit or loss

These assets 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 or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Financial instruments (continued)

*(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial assets impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization.

For Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

*(iii) Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include 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 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. Gains or losses on liabilities held for trading are recognised in profit or loss.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Financial instruments (continued)

*(iii) Financial liabilities (continued)*

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

*(iv) Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

*(v) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Financial instruments (continued)

*(vi) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

*(vii) Derecognition*

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

### (k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

**(m) Foreign currency**

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

**(n) Employee benefits**

*(i) Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

*(ii) Defined contribution pension plan*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

*(iii) Termination benefits*

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (o) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

### (p) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and investments in subsidiaries to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

*The Group as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

## 4. PRINCIPAL ACCOUNTING POLICIES (continued)

### (s) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

**Consideration receivable**

Pursuant to an agreement entered by the Company on 26 July 2010 with 海航酒店控股集團有限公司 (Hainan Airline Hotel Holdings Group Co., Limited) ("**HNA Hotel**"), in relation to the Company's disposal of its entire shareholding in 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Company Limited) ("**Huan Cheng**"), a former subsidiary engaged in the development of Tianhe Project, the final installment amount payable by HNA Hotel may be subject to adjustments caused by overruns in construction costs and delays in construction (the "**Disposal Agreement**"). The management estimates that no adjustment is to be made to the consideration receivable as it perceives that HNA Hotel will waive the Company's responsibilities in the delays in the construction and will accept that the completion of the project will be extended to 2016 and the construction costs be revised as a result of variations in certain construction specifications requested by HNA Hotel. Based on the management's past experience in project management, its judgment on the current progress of construction, the management expects that the project will be duly completed within the extended timeline at the revised construction costs. Hence, the directors considered that the consideration receivable will be fully recoverable at its carrying amount as at 31 December 2014.

**Impairment of non-financial assets other than goodwill**

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS (continued)

**Income taxes and deferred taxes**

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

**Land appreciation taxes**

PRC land appreciation tax ("**LAT**") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including land use rights, borrowing costs and all property development expenditures.

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

**Provision for write-down in value of properties under development and properties held for sale**

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS (continued)

Critical judgments in applying accounting policies are as follows:

**Consideration from disposal of Tianhe Project**

During the year and at the end of the reporting period, the management makes judgment on whether the revenue recognition criteria set out in paragraph 14 of HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. Without having fully satisfied the revenue recognition criteria, the related revenue and costs of the project are deferred and carried in the consolidated statement of financial position. More details have been set out in note 35.

## 6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions property development, property investment and property management services. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the PRC and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

| | | |
|---|---|---|
| Property development | – | Property development and sale of properties |
| Property investment | – | Property leasing |
| Property management | – | Provision management services |

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, fair value changes in investment properties, impairment loss on goodwill and write-down/reversal of write-down of properties under development/held for sale.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial asset/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

## 6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

| | Property development RMB'000 | Property investment RMB'000 | Property management RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| *Year ended 31 December 2014* | | | | |
| **Segment revenue** | | | | |
| Reportable segment revenue | 118,345 | 22,448 | 29,443 | 170,236 |
| Elimination of intra-segment revenue | – | (6,735) | (5,631) | (12,366) |
| **Consolidated revenue from external customers** | 118,345 | 15,713 | 23,812 | 157,870 |
| **Segment results** | (75,774) | 12,648 | (861) | (63,987) |
| *Reconciliation:* | | | | |
| Unallocated corporate net expenses | | | | (21,937) |
| | | | | (85,924) |
| Fair value changes in investment properties | – | (38,822) | – | (38,822) |
| Write down of properties under development | (38,759) | – | – | (38,759) |
| Gain from bargain purchase | – | – | 1,600 | 1,600 |
| Fair value changes in derivative financial asset/liabilities | | | | 2,245 |
| Loss on disposal of subsidiaries, net of tax | | | | (15,830) |
| Finance costs | | | | (1,871) |
| Finance income | | | | 9,035 |
| Consolidated loss before income tax | | | | (168,326) |
| **Other segment information:** | | | | |
| Depreciation and amortisation | (893) | (1,023) | (1,677) | (3,593) |
| Impairment loss on trade and other receivables | – | – | (236) | (236) |
| Additions to properties under Tianhe project | 8,960 | – | – | 8,960 |
| Additions to properties under development | 2,215,687 | – | – | 2,215,687 |
| Capital expenditure | 2,422 | 2,207 | 182 | 4,811 |
| *As at 31 December 2014* | | | | |
| **Assets and liabilities** | | | | |
| Assets | | | | |
| Reportable segment assets | 5,333,788 | 565,894 | 48,013 | 5,947,695 |
| *Reconciliation:* | | | | |
| Short term investments | | | | 244,000 |
| Cash and cash equivalents | | | | 201,105 |
| Unallocated restricted and pledged deposits | | | | 297,200 |
| Unallocated corporate assets | | | | |
| – Leasehold land and building | | | | 219,293 |
| – Other corporate assets | | | | 15,673 |
| Consolidated total assets | | | | 6,924,966 |
| Liabilities | | | | |
| Reportable segment liabilities | 3,797,927 | 10,174 | 14,418 | 3,822,519 |
| *Reconciliation:* | | | | |
| Income tax payable | | | | 64,971 |
| Deferred tax liabilities | | | | 169,048 |
| Derivative financial liabilities | | | | 32 |
| Unallocated bank and other borrowings | | | | 1,113,716 |
| Unallocated corporate liabilities | | | | 19,066 |
| Consolidated total liabilities | | | | 5,189,352 |

## 6. SEGMENT REPORTING (continued)

| | Property development RMB'000 | Property investment RMB'000 | Total RMB'000 |
|---|---|---|---|
| ***Year ended 31 December 2013*** | | | |
| **Segment revenue** | | | |
| Reportable segment revenue | 657,728 | 17,978 | 675,706 |
| Elimination of intra-segment revenue | – | – | – |
| **Consolidated revenue from external customers** | 657,728 | 17,978 | 675,706 |
| **Segment results** | 50,184 | 10,440 | 60,624 |
| *Reconciliation:* | | | |
| Unallocated corporate net expenses | | | (6,885) |
| | | | 53,739 |
| Fair value changes in investment properties | – | 36,102 | 36,102 |
| Impairment loss on goodwill | (313) | – | (313) |
| Reversal of write-down of properties held for sale | 23,572 | – | 23,572 |
| Fair value changes in derivative financial asset/liabilities | | | (3,957) |
| Gain on early redemption of promissory notes | | | 4,152 |
| Finance costs | | | (758) |
| Finance income | | | 28,374 |
| Consolidated profit before income tax | | | 140,911 |
| **Other segment information:** | | | |
| Depreciation and amortisation | (539) | (992) | (1,531) |
| Impairment loss on trade and other receivables | – | (14) | (14) |
| Bad debts recovered | – | 55 | 55 |
| Additions to properties under Tianhe project | 3,066 | – | 3,066 |
| Additions to properties under development | 514,234 | – | 514,234 |
| Capital expenditure | 294 | 166,126 | 166,420 |
| ***As at 31 December 2013*** | | | |
| **Assets and liabilities** | | | |
| Assets | | | |
| Reportable segment assets | 3,773,573 | 719,450 | 4,493,023 |
| *Reconciliation:* | | | |
| Derivative financial asset | | | 2,076 |
| Cash and cash equivalents | | | 300,516 |
| Restricted and pledged deposits | | | 57,660 |
| Unallocated corporate assets | | | |
| – Leasehold land and building | | | 152,709 |
| – Other corporate assets | | | 1,263 |
| Consolidated total assets | | | 5,007,247 |
| Liabilities | | | |
| Reportable segment liabilities | 2,259,517 | 7,828 | 2,267,345 |
| *Reconciliation:* | | | |
| Income tax payable | | | 65,801 |
| Deferred tax liabilities | | | 179,298 |
| Derivative financial liabilities | | | 27,792 |
| Unallocated bank and other borrowings | | | 524,919 |
| Unallocated corporate liabilities | | | 16,443 |
| Consolidated total liabilities | | | 3,081,598 |

**Information about major customers**

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2014 and 2013.

## 7. REVENUE

Revenue represents the aggregate of the net invoiced amounts received and receivable from property development, property investment and property management services earned by the Group, and net of sales related taxes. The amounts of each significant category of revenue recognised during the year are as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sale of properties | **116,056** | 653,543 |
| Rental income | **18,002** | 21,730 |
| Property management services | **23,812** | – |
| Others | **–** | 433 |
| | **157,870** | 675,706 |

## 8. FINANCE COSTS AND INCOME

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Finance costs:** | | |
| Interest on bank and other borrowings | | |
| – wholly repayable within five years | **204,363** | 70,220 |
| – wholly repayable after five years | **2,585** | 5,235 |
| | **206,948** | 75,455 |
| *Less: Amount capitalised as properties under development* | | |
| Interest on bank and other borrowings | **(205,077)** | (75,454) |
| | **1,871** | 1 |
| Other borrowing costs | **29,431** | 7,437 |
| *Less: Amount capitalised as properties under development* | **(29,431)** | (6,680) |
| | **–** | 757 |
| Finance costs charged to profit or loss | **1,871** | 758 |
| **Finance income:** | | |
| Bank interest income | **5,932** | 5,425 |
| Interest income on short term investments | **3,094** | – |
| Default interest income on overdue consideration receivable | **–** | 18,392 |
| Other interest income | **9** | 4,557 |
| Finance income credited to profit or loss | **9,035** | 28,374 |

## 8. FINANCE COSTS AND INCOME (continued)

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 12.4% (2013: 11.3%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

## 9. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax for the year has been arrived at after charging/(crediting):

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Cost of properties sold | | **115,015** | 541,815 |
| Write-down/(reversal of write-down) of properties under development/properties held for sale | | **38,759** | (23,572) |
| Cost of inventories recognised in profit or loss | | **153,774** | 518,243 |
| Staff costs, including directors' emoluments | *10* | **52,966** | 42,286 |
| Auditor's remuneration | | | |
| – current year | | **887** | 802 |
| – over-provision for prior year | | **(40)** | – |
| – non-audit services | | **445** | 748 |
| Depreciation of property, plant and equipment | *17* | **9,110** | 1,890 |
| *Less: Amount capitalised as properties under development* | *24* | **(36)** | (19) |
| Depreciation charged to profit or loss | | **9,074** | 1,871 |
| Amortisation of leasehold land | *17* | **3,407** | 246 |
| Depreciation and amortisation charged to profit or loss | | **12,481** | 2,117 |
| Loss on disposal of property, plant and equipment | | **57** | 22 |
| Minimum lease payments under operating lease in respect of: | | | |
| – rented office premises | | **1,378** | 1,251 |
| – rented other premises | | **579** | 575 |
| Exchange loss/(gain), net | | **972** | (8,008) |
| Impairment loss on trade and other receivables | | **236** | 14 |
| Bad debts recovered | | **–** | (55) |
| Direct operating expenses arising from investment properties that generated rental income | | **5,041** | 3,736 |
| Direct operating expenses arising from investment properties that did not generate rental income | | **486** | 820 |

## 10. STAFF COSTS

| | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|
| **Staff costs (including directors' emoluments) comprise:** | | |
| Basic salaries and other benefits | **70,226** | 46,161 |
| Bonuses | **2,106** | 8,848 |
| Equity-settled share-based payment expenses | **907** | 1,275 |
| Contributions to defined contribution pension plans | **3,647** | 2,222 |
| | **76,886** | 58,506 |
| *Less: Amount capitalised as properties under development* | **(23,920)** | (16,220) |
| Staff costs charged to profit or loss | **52,966** | 42,286 |

## 11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | Fees<br>*RMB'000* | Salaries and other benefits<br>*RMB'000*<br>*(note (a))* | Bonuses<br>*RMB'000*<br>*(note (b))* | Equity-settled share-based payment expenses<br>*RMB'000* | Contributions to defined contribution pension plan<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| **Executive directors** | | | | | | |
| YU Pan | – | 1,906 | 378 | – | 14 | 2,298 |
| WEN Xiaobing | 95 | 1,763 | – | 245 | 52 | 2,155 |
| WONG Lok | – | 210 | – | – | 10 | 220 |
| **Non-executive director** | | | | | | |
| ZHONG Guoxing | – | – | – | – | – | – |
| **Independent non-executive directors** | | | | | | |
| CHOY Shu Kwan | 174 | – | – | – | – | 174 |
| CHENG Wing Keung, Raymond | 174 | – | – | – | – | 174 |
| CHUNG Lai Fong | 174 | – | – | – | – | 174 |
| | 617 | 3,879 | 378 | 245 | 76 | 5,195 |

## 11. DIRECTORS' EMOLUMENTS (continued)

| | Fees<br>*RMB'000* | Salaries and other benefits<br>*RMB'000*<br>*(note (a))* | Bonuses<br>*RMB'000*<br>*(note (b))* | Equity-settled share-based payment expenses<br>*RMB'000* | Contributions to defined contribution pension plan<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| 2013 | | | | | | |
| **Executive directors** | | | | | | |
| YU Pan | – | 1,808 | 467 | – | 12 | 2,287 |
| WEN Xiaobing *(appointed on 6 November 2013) (note c)* | 15 | 217 | 71 | 41 | 5 | 349 |
| SIU Shawn *(resigned on 6 November 2013)* | – | 1,429 | – | 245 | 11 | 1,685 |
| WONG Lok | – | 212 | – | – | 10 | 222 |
| **Non-executive director** | | | | | | |
| ZHONG Guoxing *(appointed on 9 October 2013)* | – | – | – | – | – | – |
| **Independent non-executive directors** | | | | | | |
| CHOY Shu Kwan | 160 | – | – | – | – | 160 |
| CHENG Wing Keung, Raymond | 160 | – | – | – | – | 160 |
| CHUNG Lai Fong | 160 | – | – | – | – | 160 |
| | 495 | 3,666 | 538 | 286 | 38 | 5,023 |

*Notes:*

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind;

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the remuneration committee of the Company; and

(c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the period are included in note 12 below.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

## 12. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

Of the five individuals with the highest emoluments in the Group during the year, two (2013: three) are Director whose emoluments are included in note 11 above. The emoluments of the remaining three (2013: two individuals and Mr. WEN Xiaobing who acted as senior management during the period from January to October 2013) are as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Basic salaries and other benefits | **3,889** | 2,203 |
| Bonuses | **379** | 792 |
| Equity-settled share-based payment expenses | **410** | 387 |
| Contributions to defined contribution pension plans | **118** | 61 |
| | **4,796** | 3,443 |

Their emoluments are within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2014** | 2013 |
| RMB789,001 to RMB1,183,000 (equivalent to Hong Kong dollars ("**HK$**") 1,000,001 to HK$1,500,000) | **1** | 1 |
| RMB1,578,001 to RMB1,972,000 (equivalent to HK$2,000,001 to HK$2,500,000) | **1** | 2 |
| RMB1,972,001 to RMB2,367,000 (equivalent to HK$2,500,001 to HK$3,000,000) | **1** | – |

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

| | **Number of senior management** | |
|---|---|---|
| | **2014** | 2013 |
| RMB Nil to RMB789,000 (equivalent to HK$Nil to HK$1,000,000) | **1** | 1 |
| RMB789,001 to RMB1,183,000 (equivalent to HK$1,000,001 to HK$1,500,000) | **2** | – |
| RMB1,183,001 to RMB1,578,000 (equivalent to HK$1,500,001 to HK$2,000,000) | **–** | 2 |
| RMB1,578,001 to RMB1,972,000 (equivalent to HK$2,000,001 to HK$2,500,000) | **1** | 2 |
| RMB1,972,001 to RMB2,367,000 (equivalent to HK$2,500,001 to HK$3,000,000) | **1** | – |

## 13. INCOME TAX (CREDIT)/EXPENSE

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Current tax** | | |
| Hong Kong profits tax | – | – |
| PRC corporate tax | | |
| – current year | **532** | 17,007 |
| PRC LAT | | |
| – current year | **1,372** | 6,981 |
| | **1,904** | 23,988 |
| **Deferred tax** *(Note 36)* | | |
| – current year | **(10,250)** | 4,250 |
| Total income tax (credit)/expense | **(8,346)** | 28,238 |

No provision for Hong Kong profits tax has been made for the year ended 31 December 2014 (2013: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2013: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2013: 25%) of the estimated assessable profits.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

## 13. INCOME TAX (CREDIT)/EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit/(loss) before income tax per the consolidated statement of profit or loss as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss)/profit before income tax | **(168,326)** | 140,911 |
| Tax calculated at the applicable income tax rate of 25% (2013: 25%) | **(42,082)** | 35,228 |
| Effect of different tax rates of entities operating in other jurisdictions | **11,954** | 3,390 |
| Tax effect of expenses not deductible for tax purposes | **17,663** | 3,582 |
| Tax effect of revenue not subject to tax | **(478)** | (11,829) |
| Tax effect of tax losses not recognised | **4,023** | 25,791 |
| Utilisation of tax losses previously not recognised | **(3,648)** | (36,072) |
| Tax effect of LAT | **1,372** | 6,981 |
| Tax effect of other temporary differences not recognised | **2,146** | 1,860 |
| Others | **704** | (693) |
| Income tax (credit)/expense | **(8,346)** | 28,238 |

## 14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB121,986,000 (2013: RMB64,674,000).

## 15. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the (loss)/profit attributable to ordinary shareholders of the Company and the following data:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss)/profit for the purposes of basic and diluted (loss)/earnings per share | **(141,252)** | 63,989 |
| | **Number of shares** | |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share | **2,216,531** | 2,216,531 |

For the year ended 31 December 2014 and 2013, basic (loss)/earnings per share is same as diluted (loss)/earnings per share as any effect from the Company's options is anti-dilutive.

## 16. DIVIDENDS

The Company does not have distributable reserve available for payment of dividend for the year ended 31 December 2014 (2013: Nil).

## 17. PROPERTY, PLANT AND EQUIPMENT

| The Group | Leasehold land and building *RMB'000* | Furniture, fixtures and equipment *RMB'000* | Motor vehicles *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2013 | – | 4,265 | 6,732 | 10,997 |
| Additions | 153,072 | 723 | 1,147 | 154,942 |
| Acquired through business combinations | – | 22 | – | 22 |
| Written off/disposals | – | (144) | (1,348) | (1,492) |
| Exchange differences | – | (11) | (57) | (68) |
| At 31 December 2013 and at 1 January 2014 | **153,072** | **4,855** | **6,474** | **164,401** |
| Additions | **–** | **7,467** | **1,571** | **9,038** |
| Acquired through business combinations *(Note 40(b))* | **–** | **163** | **26** | **189** |
| Transfer from investment properties *(Note 18)* | **116,092** | **–** | **–** | **116,092** |
| Disposal of subsidiaries | **–** | **(740)** | **(438)** | **(1,178)** |
| Written off/disposals | **–** | **(688)** | **–** | **(688)** |
| Exchange differences | **–** | **1** | **(7)** | **(6)** |
| At 31 December 2014 | **269,164** | **11,058** | **7,626** | **287,848** |
| **Accumulated depreciation** | | | | |
| At 1 January 2013 | – | 1,689 | 2,588 | 4,277 |
| Depreciation for the year | 117 | 835 | 938 | 1,890 |
| Amortisation for the year | 246 | – | – | 246 |
| Written off/disposals | – | (130) | (1,281) | (1,411) |
| Exchange differences | – | (8) | (43) | (51) |
| At 31 December 2013 and at 1 January 2014 | **363** | **2,386** | **2,202** | **4,951** |
| Disposal of subsidiaries | **–** | **(582)** | **(384)** | **(966)** |
| Depreciation for the year | **5,711** | **2,066** | **1,333** | **9,110** |
| Amortisation for the year | **3,407** | **–** | **–** | **3,407** |
| Written off/disposals | **–** | **(631)** | **–** | **(631)** |
| Exchange differences | **(15)** | **–** | **(1)** | **(16)** |
| At 31 December 2014 | **9,466** | **3,239** | **3,150** | **15,855** |
| **Net book value** | | | | |
| At 31 December 2014 | **259,698** | **7,819** | **4,476** | **271,993** |
| At 31 December 2013 | 152,709 | 2,469 | 4,272 | 159,450 |

## 18. INVESTMENT PROPERTIES

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At beginning of year | **710,826** | 513,000 |
| Additions | **–** | 166,126 |
| Transfer to property, plant and equipment *(Note 17)* | **(116,092)** | – |
| Changes in fair value | **(38,822)** | 36,102 |
| Exchange differences | **621** | (4,402) |
| At end of year | **556,533** | 710,826 |

Details of assessment of the fair value are set out in note 26.

## 19. PROPERTIES UNDER TIANHE PROJECT

Details of the project are set out in note 35. The following table reconciles the movement of the carrying amount of costs of the Tianhe Project during the year:

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At beginning of year | **768,130** | 765,064 |
| Additions of other development costs | **8,960** | 3,066 |
| At end of year | **777,090** | 768,130 |

## 20. GOODWILL

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Cost** | | |
| At beginning of year | **68,664** | 68,351 |
| Acquired through business combinations *(Note 40(b))* | **–** | 313 |
| At end of year | **68,664** | 68,664 |
| **Accumulated impairment loss** | | |
| At beginning of year | **55,110** | 54,797 |
| Impairment loss recognised during the year | **–** | 313 |
| At end of year | **55,110** | 55,110 |
| **Net book value** | | |
| At end of year | **13,554** | 13,554 |

## 20. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

| Project | Attributable CGU | 2014<br>*RMB'000* | 2013<br>*RMB'000* |
|---|---|---|---|
| Zhoutouzui Project | Property development *(Note)* | **13,554** | 13,554 |

*Note:* Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties under development (as disclosed in note 24).

**Impairment test for goodwill**

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

Key assumptions are as follows:

| CGU | Discount rate | Pre-tax operating margin |
|---|---|---|
| **2014** | | |
| Property development | **8.00%** | **25.01%** |
| 2013 | | |
| Property development | 8.00% | 40.25% |

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2014 (2013: RMB313,000). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

## 21. INTERESTS IN SUBSIDIARIES

| The Company | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Interests in subsidiaries – non-current portion** | | | |
| Unlisted investments, at cost | *(a), (c)* | **3,323,108** | 2,728,031 |
| **Amounts due from subsidiaries – current portion** | | | |
| Amounts due from subsidiaries | *(b)* | **20,285** | 21,226 |
| Less: Provision for impairment loss | | **(17,987)** | (17,987) |
| | | **2,298** | 3,239 |
| | | **3,325,406** | 2,731,270 |
| Amounts due to subsidiaries | *(b)* | **(1,409,513)** | (773,200) |

*Notes:*

(a) Details of the Company's principal subsidiaries as at 31 December 2014 are as follows:

| Name of subsidiaries | Place of incorporation/ establishment/ operation | Particulars of issued ordinary shares/ paid-up capital | Percentage of equity interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Fine Luck Group Limited | BVI | United States dollar ("**US$**")1 | 100% | – | Investment holding |
| Fortunate Start Investments Limited ("**Fortunate Start**") | BVI | US$100 | – | 100% | Investment holding |
| Graceful China Limited | Hong Kong | HK$1 | 100% | – | Group treasury |
| 廣州市創譽房地產有限公司 (Guangzhou Chuangyu Real Estate Company Limited) ("**Chuangyu**") | PRC | US$6,000,000 | – | 100% | Property investment in the PRC |
| 廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited) ("**Tianyu Property Management**") | PRC | RMB53,000,000 | – | 100% | Provision of property management services |

## 21. INTERESTS IN SUBSIDIARIES (continued)

*Notes: (continued)*

(a) Details of the Company's principal subsidiaries as at 31 December 2014 are as follows: (continued)

| Name of subsidiaries | Place of incorporation/ establishment/ operation | Particulars of issued ordinary shares/ paid-up capital | Percentage of equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| 廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited) ("**GZ Yu Jun**") | PRC | HK$5,000,000 | – | 100% | Investment holding and provision of property development project management services in the PRC |
| Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**") | Hong Kong | HK$100 | – | 100% | Investment holding |
| Long World Trading Limited | BVI | US$1 | – | 100% | Investment holding |
| 南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited) ("**Nanning Jucheng**") | PRC | RMB50,000,000 | – | 80% | Property development in the PRC |
| 南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited) | PRC | RMB50,000,000 | – | 100% | Property development in the PRC |
| Skyfame Management Services Limited | Hong Kong | HK$1 | 100% | – | Provision of management services to group entities |
| Trenco Holdings Limited | Hong Kong | HK$10,000 | – | 100% | Investment holding |
| Yaubond Limited ("**Yaubond**") | BVI | US$18,813,500 | – | 100% | Property development |
| 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited) ("**YZ Tianyu Real Estate**") | PRC | RMB50,000,000 | – | 70% | Property development in the PRC |
| 永州天譽旅遊發展有限公司 (Yongzhou Tianyu Tourism Development Company Limited) | PRC | RMB100,000,000 | – | 70% | Scenic zone management, property development and hotel operation in the PRC |
| Waymax Investments Limited | Hong Kong | HK$1 | 100% | – | Property investment |
| Winprofit Investments Limited | BVI | US$100 | 100% | – | Investment holding |

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuangyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

## 21. INTERESTS IN SUBSIDIARIES (continued)

*Notes: (continued)*

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

The information above is the amount before inter-company eliminations.

**Summarised statement of financial position**

| | Nanning Jucheng | | YZ Tianyu Real Estate | | Guizhou Yu Jun | |
|---|---|---|---|---|---|---|
| | As at 31 December | | As at 31 December | | As at 31 December | |
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Current** | | | | | | |
| Assets | **1,724,835** | 49,769 | **440,819** | 488,642 | **–** | 871,750 |
| Liabilities | **(1,694,538)** | (10) | **(476,471)** | (350,380) | **–** | (745,200) |
| | **30,297** | 49,759 | **(35,652)** | 138,262 | **–** | 126,550 |
| **Non-current** | | | | | | |
| Assets | **406** | 3 | **924** | 1,061 | **–** | 206 |
| Liabilities | **–** | – | **–** | (125,000) | **–** | (40,000) |
| | **406** | 3 | **924** | (123,939) | **–** | (39,794) |
| **Net assets/(liabilities)** | **30,703** | 49,762 | **(34,728)** | 14,323 | **–** | 86,756 |
| **Accumulated non-controlling interests** | **6,141** | 2,488 | **(10,418)** | 4,297 | **–** | 39,040 |

**Summarised statement of profit or loss and other comprehensive income**

| | Nanning Jucheng | | YZ Tianyu Real Estate | | Guizhou Yu Jun | |
|---|---|---|---|---|---|---|
| | For the year ended 31 December | | For the year ended 31 December | | For the year ended 31 December | |
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue | **–** | – | **102,106** | – | **16,240** | 657,295 |
| (Loss)/profit before income tax | **(19,781)** | (239) | **(47,833)** | (21,144) | **(1,364)** | 145,036 |
| Income tax expense | **–** | – | **(1,218)** | – | **(1,107)** | (23,500) |
| (Loss)/profit after tax and total comprehensive income | **(19,781)** | (239) | **(49,051)** | (21,144) | **(2,471)** | 121,536 |
| (Loss)/profit allocated to non-controlling interests | **(3,105)** | (12) | **(14,715)** | (6,343) | **(1,112)** | 54,691 |
| Dividends paid to non-controlling interests | **–** | – | **–** | – | **–** | – |

## 21. INTERESTS IN SUBSIDIARIES (continued)

*Notes: (continued)*

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

**Summarised statement of cash flows**

| | Nanning Jucheng For the year ended 31 December | | YZ Tianyu Real Estate For the year ended 31 December | | Guizhou Yu Jun For the year ended 31 December | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Cash flows from operating activities** | | | | | | |
| Cash generated (used in)/from operations | **(254,195)** | (11,170) | **3,309** | (68,398) | **(70,175)** | 146,990 |
| Income tax paid | **(10,263)** | – | **(8,582)** | (5,103) | **(336)** | (15,182) |
| Other borrowing costs paid | **–** | – | **(811)** | (4,758) | **(217)** | (4,053) |
| Interest paid | **(43,489)** | – | **(9,575)** | (6,905) | **(1,472)** | (2,759) |
| Net cash (used in)/from operating activities | **(307,947)** | (11,170) | **(15,659)** | (85,164) | **(72,200)** | 124,996 |
| **Cash flows from investing activities** | | | | | | |
| Interest received | **723** | 15 | **261** | 121 | **132** | 638 |
| Disposal of a subsidiary, net of cash disposed of | **–** | – | **–** | – | **(16,361)** | – |
| Purchase of property, plant and equipment | **(494)** | (3) | **(31)** | (403) | **–** | – |
| Acquisitions of short-term investments | **(7,500)** | – | **(29,000)** | – | **–** | – |
| (Increase)/decrease in restricted and pledged deposits | **(33,042)** | – | **–** | – | **46,186** | 73,087 |
| Net cash (used in)/from investing activities | **(40,313)** | 12 | **(28,770)** | (282) | **29,957** | 73,725 |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from issue of paid-up capital | **–** | 50,000 | **–** | 20,000 | **–** | – |
| New bank and other borrowings | **–** | – | **30,000** | 125,000 | **17,000** | 30,000 |
| Repayment of bank and other borrowings | **–** | – | **(10,000)** | – | **(40,000)** | – |
| Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries | **354,476** | – | **(9,680)** | 13,306 | **(16,530)** | (109,978) |
| Repayment of loans from non-controlling shareholders of a subsidiary | **–** | – | **–** | – | **(12,542)** | (78,796) |
| Net cash from/(used in) financing activities | **354,476** | 50,000 | **10,320** | 158,306 | **(52,072)** | (158,774) |
| Net increase/(decrease) in cash and cash equivalents | **6,216** | 38,842 | **(34,109)** | 72,860 | **(94,315)** | 39,947 |
| Cash and cash equivalents at beginning of year | **38,842** | – | **77,484** | 4,625 | **94,315** | 54,368 |
| Cash and cash equivalents at the end of year | **45,058** | 38,842 | **43,375** | 77,485 | **–** | 94,315 |

The information above is the amount before inter-company eliminations.

## 22. JOINT ARRANGEMENT

**The Group**

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited) ("**GZ Yucheng**"), a sino-foreign cooperative company with limited liabilities established in the PRC for a renewal term of 15 years commencing on 31 March 2003 by GZ Zhoutouzui and is accounted for as a joint operation in the Group's financial statements. The Group's accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

| Place and date of establishment | Registered capital | Paid-up capital | Principal activity |
|---|---|---|---|
| PRC, 31 March 2003 | US$100,000,000 | US$90,000,000 (approximately RMB595,487,000) (2013: US$50,000,000 (approximately RMB349,799,000)) | Property development in the PRC |

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for 100% of the capital of and investment in GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**Port Authority**"), will be entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui will be entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

## 23. CONSIDERATION RECEIVABLE

| The Group | Gross consideration | (Settled)/ Paid | **2014** ***RMB'000*** | 2013 *RMB'000* |
|---|---|---|---|---|
| Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group) | 1,128,273 | (988,273) | **140,000** | 140,000 |
| *Less:* Estimated development costs and finance costs borne by the Group | (55,000) | 20,000 | **(35,000)** | (35,000) |
| Amortised cost, amount due after one year | 1,073,273 | (968,273) | **105,000** | 105,000 |

The receivable relates to the outstanding instalments receivable from the purchaser, HNA Hotel, for the disposal of Huan Cheng that is unsecured and interest-free. An estimated total sum of approximately RMB140,000,000 is receivable from HNA Hotel before taking into account the estimated costs to be borne by the Group pursuant to the agreement entered into with HNA Hotel, including estimated finance costs totalling RMB35,000,000 to be borne by the Group. The final instalment, estimated at a present value of approximately RMB105,000,000 (2013: RMB105,000,000), is receivable when the construction of the properties is completed, which is expected to occur more than twelve months from the end of reporting period.

## 24. PROPERTIES UNDER DEVELOPMENT

Properties under development in the PRC are as follows:

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Land use rights *(Note)* | **1,393,411** | 218,373 |
| Premium paid for the acquisition of the interest of the land, demolition and settlement costs | **638,392** | 963,365 |
| Construction costs | **1,320,605** | 776,865 |
| Others | **514,635** | 304,106 |
| | **3,867,043** | 2,262,709 |
| Less: Accumulated write-down in value | **(38,759)** | – |
| | **3,828,284** | 2,262,709 |

*Note:*

Land use rights comprise cost of acquiring rights to using certain pieces of land which are all located in the PRC for property development over fixed periods of time as defined within the range between 40 and 70 years.

The following table reconciles the movement of the carrying amount of properties under development during the year:

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At beginning of year | **2,262,709** | 1,691,320 |
| Additions | | |
| – Capitalisation of depreciation of property, plant and equipment | **36** | 19 |
| – Capitalisation of finance costs | **234,508** | 82,134 |
| – Land and other development costs | **2,215,687** | 514,234 |
| | **2,450,231** | 596,387 |
| Completed properties transferred to properties held for sale | **(231,403)** | (24,998) |
| Impairment loss charged to profit or loss | **(38,759)** | – |
| Disposal of a subsidiary *(Note 40(c))* | **(614,494)** | – |
| At end of year | **3,828,284** | 2,262,709 |

## 25. PROPERTIES HELD FOR SALE

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Completed properties held for sale | **125,526** | 173,395 |

All completed properties held for sale as at 31 December 2014 were located in the PRC.

## 26. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of completed properties is as follows:

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Medium-term land lease in the PRC and Hong Kong | | |
| – Investment properties | **556,533** | 710,826 |
| – Leasehold land and building | **70,940** | – |
| Long-term land lease in the PRC | | |
| – Leasehold land and building | **188,758** | 152,709 |
| – Properties held for sale | **125,526** | 173,395 |
| | **941,757** | 1,036,930 |

(b) All of the Group's completed properties were revalued as at 31 December 2014 and 31 December 2013. The valuations were carried out by DTZ Debenham Tie Leung Limited and Ascent Partners Valuation Service Limited, independent valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties, leasehold land and building and properties held for sale with carrying amounts as disclosed in note 45 are pledged to secure bank and other borrowings of the Group, as disclosed in notes 33(a) and 33(c), at the end of the reporting period.

(d) For the year ended 31 December 2014, the rental income from investment properties and properties held for sale amounted to RMB15,713,000 (2013: RMB17,978,000) and RMB2,289,000 (2013: RMB3,752,000) respectively.

## 26. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Nature | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable inputs | Relationship of unobservable inputs to fair value | Sensitivity |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Investment properties in Hong Kong | Level 2 | Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. | N/A | N/A | N/A |
| Investment properties in the PRC | Level 3 | Income capitalization approach<br>The key inputs are:<br>(1) Capitalisation rate;<br>(2) Daily unit rent | (a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%. | The higher the capitalisation rate, the lower the fair value. | If the capitalisation rate to the valuation model is 1% higher/lower, while all the other variables were held constant, the carrying value of Property would decrease by approximately RMB44,000,000 and increase by approximately RMB52,000,000 respectively. |
| | | | (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB394/sq.m./day for the base level. | The higher the daily unit rent, the higher the fair value. | If the daily unit rent to the valuation model is 5% higher/lower, while all the other variables were held constant, the carrying value would increase by approximately RMB18,000,000 and decrease by approximately RMB18,000,000 respectively. |
| 2013 | | | | | |
| Investment properties in Hong Kong | Level 2 | Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. | N/A | N/A | N/A |
| Investment properties in the PRC | Level 3 | Income capitalization approach.<br>The key inputs are:<br>(1) Capitalisation rate;<br>(2) Daily unit rent | (a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 5%. | The higher the capitalisation rate, the lower the fair value. | If the capitalisation rate to the valuation model is 1% higher/lower, while all the other variables were held constant, the carrying value of Property would decrease by approximately RMB53,000,000 and increase by approximately RMB62,000,000 respectively. |
| | | | (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB396/sq.m./day for the base level. | The higher the daily unit rent, the higher the fair value. | If the daily unit rent to the valuation model is 5% higher/lower, while all the other variables were held constant, the carrying value would increase by approximately RMB25,127,000 and decrease by approximately RMB25,127,000 respectively. |

## 26. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2014 and 31 December 2013 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

**Fair value measurements and valuation processes**

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

| The Group | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| Opening balance (level 3 recurring fair value) | **530,000** | 513,000 |
| Transfer to property, plant and equipment | **(42,000)** | – |
| (Losses)/gains: included in other gains and losses | **(41,000)** | 17,000 |
| Closing balance (level 3 recurring fair value) | **447,000** | 530,000 |

## 27. TRADE AND OTHER RECEIVABLES

| The Group | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Current or less than 1 month | | **1,503** | 305 |
| 1 to 3 months | | **338** | 555 |
| More than 3 months but less than 12 months | | **106** | 1,156 |
| More than 1 year | | **78** | 1,377 |
| Trade receivables, net of impairment | *(a), (b)* | **2,025** | 3,393 |
| Refundable earnest money in a development project | | **10,000** | 10,000 |
| Surety deposit paid for securing due performance of the construction of a hotel in Yongzhou | | **32,000** | 30,000 |
| Tender deposit in development project | | **6,800** | 6,000 |
| Prepaid construction costs | | **239,326** | 316,882 |
| Prepaid finance costs | | **10,570** | 25,131 |
| Business taxes and surcharges paid for properties pre-sold | | **73,756** | 32,353 |
| Interest receivable on bank deposits/short-term investment | | **6,624** | – |
| Deposits, prepayments and other receivables | *(b)* | **85,936** | 30,172 |
| | | **467,037** | 453,931 |

*Notes:*

(a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

| The Group | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| 1 to 3 months past due | **338** | 555 |
| More than 3 months but less than 12 months past due | **106** | 1,156 |
| More than 1 year past due | **78** | 1,377 |
| | **522** | 3,088 |

The Group's trade receivables which are neither past due nor impaired relate to a number of tenants of the Group's properties for whom there is no recent history of default.

The balances of other classes within trade and other receivables of the Group are neither past due nor impaired. They mainly comprise deposits with government authorities and utility service providers. Management considers that the credit risk associated with these receivables is minimal.

## 27. TRADE AND OTHER RECEIVABLES (continued)

*Notes: (continued)*

(b) (continued)

The movements of impairment loss on trade receivables of the Group are as follows:

| The Group | **2014** **RMB'000** | 2013 *RMB'000* |
|---|---|---|
| At beginning of year | **437** | 478 |
| Acquired through business combination *(Note 40(b))* | **520** | – |
| Impairment loss recognised | **236** | 14 |
| Bad debts recovered | – | (55) |
| At end of year | **1,193** | 437 |

## 28. SHORT TERM INVESTMENT

The Group invested in certain saving plans issued by two banks and financial institution on mainland China amounting to RMB244,000,000, of which an investment value of RMB200,000,000 was used to secure a back-to-back letter of credit issued by a local bank in the PRC to a Hong Kong-based bank to guarantee repayment of the latter's money market loan granted to a subsidiary in a total of US$31,000,000 (approximately RMB189,689,000).

## 29. RESTRICTED AND PLEDGED DEPOSITS

| The Group | *Notes* | **2014** **RMB'000** | 2013 *RMB'000* |
|---|---|---|---|
| To secure for: | | | |
| – letter of credit issued by a bank which guarantee repayment of money market loan | *(a)* | **297,200** | – |
| – the payment of construction cost of development projects | *(b)* | **33,042** | 53,233 |
| – others | | **4,602** | 4,427 |
| | | **334,844** | 57,660 |

*Notes:*

(a) As at 31 December 2014, to secure a back-to-back letter of credit issued by a local bank in the PRC to a Macau-based bank to guarantee repayment of the latter's money market loan granted to a subsidiary in a total of HK$358,900,000 (approximately RMB283,136,000), bank deposits with an aggregate balance of RMB297,200,000 were placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits shall be released only to pay construction costs of the development projects.

## 30. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Short-term bank deposits | **297,200** | – | – | – |
| Cash at bank and in hand | **238,749** | 358,176 | **18,523** | 55 |
| | **535,949** | 358,176 | **18,523** | 55 |
| Less: Restricted and pledged deposits *(Note 29)* | **(334,844)** | (57,660) | – | – |
| | **201,105** | 300,516 | **18,523** | 55 |

## 31. TRADE AND OTHER PAYABLES

| | **2014** | 2013 |
|---|---|---|
| **The Group** | ***RMB'000*** | *RMB'000* |
| Current or less than 1 month | – | 5,810 |
| 1 to 3 months | **242** | 966 |
| More than 3 months but less than 12 months | **226** | 24,431 |
| More than 12 months | **153** | 1,037 |
| Total trade payables | **621** | 32,244 |
| Construction costs payable | **116,474** | 85,367 |
| Tender receivable from the suppliers | **48,499** | 35,749 |
| Receipts in advance, rental and other deposits from buyers, customers and/or tenants | **13,874** | 32,408 |
| Interest payable on bank and other borrowings | **18,743** | 1,014 |
| Other accrued expenses and other payables | **30,563** | 41,958 |
| | **228,774** | 228,740 |

## 32. FINANCIAL GUARANTEE CONTRACT

**The Company**

During the years ended 31 December 2014 and 2013, the Company provided corporate guarantees to secure for the repayment of subsidiaries' borrowings as disclosed in notes 33(a) to 33(d). However, the Directors consider that the exposure of the guarantee is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2014 and 2013.

**The Group**

As at 31 December 2014, the Group provides guarantees to the extent of approximately RMB140,111,000 (2013: RMB745,642,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers.

## 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | *Notes* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Bank and other borrowings** | | | | | |
| Secured bank borrowings: | | | | | |
| (i) term loans, revolving loans and construction loans | *(a)* | **728,903** | 480,625 | **–** | – |
| (ii) money market loans | *(b)* | **472,825** | – | **–** | – |
| Other secured borrowings: | | | | | |
| (i) trust loan | *(c)* | **500,000** | – | **–** | – |
| (ii) entrusted loan | *(d)* | **–** | – | **–** | – |
| (iii) secured loan | *(e)* | **–** | 228,768 | **–** | 228,768 |
| (iv) secured bonds | *(f)* | **244,642** | 224,034 | **244,642** | 224,034 |
| Unsecured borrowings: | | | | | |
| (i) unsecured bonds | *(g)* | **104,457** | – | **104,457** | – |
| (ii) other borrowings | *(h)* | **224,000** | – | **224,000** | – |
| | | **2,274,827** | 933,427 | **573,099** | 452,802 |
| **Derivative financial asset** | | | | | |
| – Company Repurchase Rights on Secured Bonds | *(f)* | **–** | (2,076) | **–** | (2,076) |
| **Derivative financial liabilities** | | | | | |
| – warrants of HK$29,800,000 | *(e)* | **–** | 3,974 | **–** | 3,974 |
| – guaranteed return of warrants | *(e)* | **–** | 19,989 | **–** | 19,989 |
| – Exchange Rights and Holder Repurchase Rights on Secured Bonds | *(f)* | **32** | 3,829 | **32** | 3,829 |
| | | **32** | 27,792 | **32** | 27,792 |
| Amounts due within one year included in current liabilities | | **(32)** | (23,963) | **(32)** | (23,963) |
| Amounts due after one year | | **–** | 3,829 | **–** | 3,829 |

## 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES (continued)

*Notes:*

(a) At 31 December 2014, the bank borrowings are secured by mortgages of ownership titles of properties under development, properties held for sale and investment properties with an aggregate carrying amount of approximately RMB2,537,109,000 (2013: RMB1,961,350,000). The bank loans carry interest at variable market rates ranging from 2.75% to 7.38% per annum (2013: 2.75% to 7.38% per annum) as at 31 December 2014. The Company provides corporate guarantee to secure for the repayment of the term loan and revolving loans with carrying value of approximately RMB113,792,000 (2013: RMB72,117,000), and a construction loan of approximately RMB470,111,000 (2013: RMB243,508,000) is secured by the personal guarantee provided by Mr. YU Pan and his spouse. Other than a term loan of approximately RMB66,458,000 (2013: RMB68,972,000) repayable by monthly instalment until 2033, bank borrowings in an aggregate amount of approximately RMB662,445,000 (2013: RMB411,653,000) are repayable in 2014, 2015 and 2016.

(b) As at 31 December 2014, the money market loans of approximately RMB472,825,000 extended by two banks in Macau and Hong Kong were secured by bank deposits of RMB297,200,000 and short term investments of RMB200,000,000 respectively placed with the bank and issued in the PRC. In addition to the pledge of deposits, the Company provides corporate guarantees to secure for the repayment of the money market loans of RMB189,689,000. The money market loans carry variable interests at the rate from 2.93% to 3.26% per annum, and are repayable in August 2015 and September 2015.

(c) As at 31 December 2014, the property units at Tianyu Garden Phase II and the office premises at HNA Tower with an aggregate carrying amount of approximately RMB595,353,000 (2013: RMB639,709,000) are mortgaged to a financial institution for a loan of RMB500,000,000 granted to a subsidiary. The loan is secured by corporate guarantee provided by the Company, certain subsidiaries and a company controlled by Mr. YU Pan and personal guarantee provided by Mr. YU Pan. The trust loan carries fixed rate at 14% per annum and is repayable in January 2016.

(d) As at 30 December 2014, the Company has entrusted a third party entity to borrow bank borrowings on behalf of the Company whose property units with a fair value of RMB45,584,000 are mortgaged to a bank for bank loan facility of RMB27,000,000 granted to the Company. The loan facility is also secured by corporate guarantee of RMB35,000,000 provided by the Company and personal guarantee given by Mr. YU Pan. The entrusted loan carries interest at variable market rate at 7.38% per annum plus a fixed rate at 1% per annum and is repayable in December 2015. As at 31 December 2014, the entrusted loan facility was not drawn down.

(e) A secured loan due 2014 in the principal amount of HK$298,000,000 (approximately RMB235,092,000) (the "**Secured Loan**") was drawn down on 22 November 2012 together with the issue of warrants, with guaranteed return conferring rights to the lender to subscribe in aggregate up to a principal amount of HK$29,800,000 (approximately RMB23,509,000) for shares of the Company, exercisable in whole or in part at any time during the subscription period from 22 November 2012 to 21 November 2014 at an initial subscription price of HK$0.7217 per share of the Company (subject to adjustment). The Secured Loan was amortised at the effective interest method by applying the effective interest rate of 18.90% per annum. The warrants are not listed on the Stock Exchange and are accounted for as derivative financial liabilities at fair value through profit or loss. The Secured Loan carries interest, which shall be paid quarterly in arrears, at the actual rate of 7% per annum for first anniversary year and 13% per annum for second anniversary year and is repayable on 21 November 2014.

## 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES (continued)

*Notes: (continued)*

(e) (continued)

The Secured Loan was early repaid and the warrants early redeemed on 6 August 2014 at a total consideration of approximately HK$335,973,000 (approximately RMB267,367,000) in full settlement. The early redemption at the warrants results in a write-back of RMB540,000 in the fair value of the warrants.

The movements of the Secured Loan are as follows:

| | *RMB'000* |
|---|---|
| At 31 December 2012 and 1 January 2013 | 213,975 |
| Accrued interest expense | 38,233 |
| Interest paid | (16,686) |
| Exchange differences | (6,754) |
| At 31 December 2013 and 1 January 2014 | **228,768** |
| Accrued interest expense | **27,282** |
| Early repayment on 6 August 2014 | **(243,652)** |
| Interest paid | **(15,179)** |
| Exchange differences | **2,781** |
| At 31 December 2014 | **–** |

(f) In October 2013, the Company has issued secured bonds in a principal amount of HK$298,000,000 (approximately RMB235,092,000) (the "**Secured Bonds**") and paid to a subscriber with an initial arrangement fee of HK$17,880,000 (the "**Fee**") which is equivalent to 6% of the principal amount of the Secured Bonds. Details of the Secured Bonds was set out in the Company's circular dated 18 October 2013. The Secured Bonds bear interests charged at the rate of 10% per annum from the date of issue until the earlier of (i) the date on which the exchange rights as mentioned in the succeeding paragraph are exercised, or (ii) the maturity date on 17 October 2015 (being the second anniversary of the date of the issuance of the Secured Bonds). Unless previously redeemed, exchanged or purchased and cancelled, the Company will redeem all the principal amount of the Secured Bonds at approximately HK$327,800,000 (approximately RMB258,601,000) (being the redemption price of HK$405,280,000 less the Fee and the total amount of interest paid up to the maturity date of HK$59,600,000).

## 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES (continued)

*Notes: (continued)*

(f) (continued)

Pursuant to the terms and conditions of the instrument dated 18 October 2013, the bondholders shall, where so requested in writing by bondholders of at least 75% of the aggregate principal amount of the Secured Bonds then outstanding, have the right at any time during 18 October 2013 to 17 October 2015 to exchange the whole of the outstanding principal amount of the Secured Bonds for nine new shares of GZ Zhoutouzui (the "**Exchange Shares**") (being one share of GZ Zhoutouzui for every principal amount of HK$33,111,111 (approximately RMB26,121,000) of the Secured Bonds) (the "**Exchange Rights**"), representing approximately 8.26% of the enlarged issued share capital of GZ Zhoutouzui. The holder of the Exchange Shares may exercise the repurchase rights (the "**Holders Repurchase Rights**") at any time after the third anniversary and before the fifth anniversary of the issuance of the Secured Bonds, pursuant to which the holder of the Exchange Shares may request the Company to repurchase the Exchange Shares which the holder of Exchange Shares holds at the repurchase prices as set out in the agreement. On the other hand, the Company may at its sole discretion exercise the repurchase rights (the "**Company Repurchase Rights**") at any time after the Exchange Rights have been exercised to repurchase the Exchange Shares from the holder of the Exchange Shares at the repurchase prices as set out in the agreement.

The Secured Bonds are amortised using the effective interest method by applying the effective interest rate of 19.07% per annum.

As a security for the Secured Bonds, Fortunate Start, a wholly-owned subsidiary of the Company, has charged all its rights, title and interest in GZ Zhoutouzui by way of a share charge in favour of the bondholders.

The movements of the Secured Bonds are as follows:

| | *RMB'000* |
|---|---|
| Issue of the Secured Bonds, net of transaction costs | 217,484 |
| Accrued interest expense | 8,392 |
| Exchange differences | (1,842) |
| At 31 December 2013 and 1 January 2014 | **224,034** |
| Accrued interest expense | **43,539** |
| Interest paid | **(23,582)** |
| Exchange differences | **651** |
| At 31 December 2014 | **244,642** |

## 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES (continued)

*Notes: (continued)*

(g) During the year, the Company has issued the 2016 Bonds in an aggregate principal amount of HK$100,000,000 (RMB78,890,000) due 2016 at a discount of 7% of the principal amount of the bonds (the "**2016 Bonds**"). The 2016 Bonds carry interests at the actual rate of 10% per annum, which are payable quarterly in arrears, and will mature in 2016. The 2016 Bonds were amortised at the effective interest method by applying the effective interest rate of 18.37% per annum.

In July, October and November 2014, the Company entered into placing agreements with a placing agent in relation to the placing of unsecured bonds in an aggregate principal amount of up to HK$2,000,000,000 (RMB1,577,800,000) maturing respectively on 4 July 2020, 12 September 2024 and 14 November 2031 (the "**Private Bonds**"). On 25 August 2014, the Company has established a HK$2,300,000,000 (RMB1,814,470,000) medium term bond programme (the "**Programme**") pursuant to which the Company can issued unsecured bonds, listed on the Stock Exchange, up to 25 August 2015. Such bonds are issued to professional investors only. Bondholders of the Private Bonds can be exchanged for the bonds issued under the Programme.

Since the launch of the Programme and up to 31 December 2014, the Company has issued an aggregate principal amount of unsecured bonds of HK$100,000,000 (RMB78,890,000) due on 12 September 2024 (the "**2024 Bonds**") and HK$60,000,000 (RMB47,334,000) due on 14 November 2031 (the "**2031 Bonds**"). The 2024 Bonds and 2031 Bonds carry coupon interest at 7.5% per annum and 8.0% per annum respectively which were payable in advance upon the issue of the bonds. The Bonds were amortised at the effective interest method by applying the effective interest rate of 12.43% per annum and 12.05% per annum respectively.

The movements of the bonds are as follows:

| | 2016 Bonds | 2024 Bonds | 2031 Bonds | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Nominal value | 100,000 | 100,000 | 60,000 | 260,000 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Nominal value | 78,890 | 78,890 | 47,334 | 205,114 |
| **Liability component of carrying amount** | | | | |
| Issue of the bonds, net of transaction costs | 73,649 | 75,835 | 46,005 | 195,489 |
| Discounts and interest paid | (10,490) | (51,455) | (39,106) | (101,051) |
| Accrued interest expense | 9,566 | 654 | 61 | 10,281 |
| Exchange differences | (130) | (111) | (21) | (262) |
| At 31 December 2014 | 72,595 | 24,923 | 6,939 | 104,457 |

(h) The balances represent unsecured loans advanced from third parties. The loans carry interest at the fixed rate of 15% per annum and 20% per annum respectively. The loans of RMB178,000,000 and RMB46,000,000 are repayable in October 2015 and January 2016 respectively.

## 33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL (ASSET)/LIABILITIES (continued)

At the end of the reporting period, the maturity profile of the bank and other borrowings are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| On demand or within one year | **1,305,610** | 300,885 | **422,642** | 228,768 |
| More than one year, but not exceeding two years | **937,356** | 484,799 | **118,596** | 224,034 |
| More than two years, but not exceeding five years | **–** | 147,743 | **–** | – |
| After five years | **31,861** | – | **31,861** | – |
| | **2,274,827** | 933,427 | **573,099** | 452,802 |
| Amounts due within one year included in current liabilities | **(1,305,610)** | (300,885) | **(422,642)** | (228,768) |
| Amounts due after one year | **969,217** | 632,542 | **150,457** | 224,034 |

## 34. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

**The Group**

The balances relate to loans to a subsidiary engaged in the development of the Guiyang Project, and were unsecured, interest-free and had no fixed terms of repayment but are expected to be repaid within one year. The loans were disposed to the purchaser of the equity interest in that subsidiary on 1 July 2014.

## 35. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT

**The Group**

In July 2010, the Disposal Agreement for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, was entered into between the Company, Yaubond and a third party, HNA Hotel for a gross sale consideration (the "**Consideration**") of RMB1,090,000,000, subject to certain adjustments. Such adjustments represent adjustment on net assets transferred to HNA Hotel of RMB38,273,000 and future development costs and finance costs to be borne by the Group, which are estimated to be RMB20,000,000 and RMB35,000,000 respectively. Details of the adjustment mechanism to the Consideration and timing of the payment of the Consideration was set out in the Company's circular dated 19 August 2010 which is supplemented by a memorandum of understanding signed on 8 September 2010 by the contracting parties in relation to finance cost to be borne by the Group. The management estimates that no adjustment is to be made to the consideration receivable as it perceives that HNA Hotel will waive the Company's responsibilities in the delays in the construction and will accept that the completion of the project will be extended to 2016 and the construction costs be revised as a result of variations in certain construction specifications requested by HNA Hotel. Based on the management's past experience in project management, its judgment on the current progress of construction, the management expects that the project will be duly completed within the extended timeline at the revised construction costs.

As at 31 December 2014, consideration from disposal of Tianhe Project was estimated to be approximately RMB990,360,000 (2013: RMB990,360,000).

The Directors consider that the Disposal Agreement constitutes an agreement for the sale of goods/ services and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 "Revenue" apply. As the project has not been substantially completed at the end of the reporting period, there are uncertainties about the due performance of the Group of certain obligations under the Disposal Agreement, and the costs to be deducted from the gross sale consideration caused by overruns in construction costs other than due to the change in design plan proposed by HNA Hotel.

The Directors foresee no overruns in construction costs in material aspects to which the Group is exposed, except that it will have to bear up to RMB20,000,000 for additional construction costs and any extra finance costs as a result any works delay as stipulated under the Disposal Agreement.

The Directors expect that the construction will be completed in 2016, taking into account the current progress of the construction.

Based on the foregoing circumstances, the Directors are of the view that the revenue recognition criteria set out in HKAS 18 have not been fully satisfied and therefore the disposal of the assets and liabilities of the Tianhe Project is not recognised until when substantial part of the revenue can be ascertained reliably. The revenue and associated costs of the Tianhe Project are deferred until the construction is completed to a substantial progress where the revenue can be reliably measured. Therefore, the net sale consideration is recorded as consideration from disposal of Tianhe Project as at 31 December 2014 and 2013. The costs of the Tianhe Project are not derecognised, but instead included in properties under Tianhe Project in the consolidated statement of financial position as detailed in note 19.

## 36. DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities are as follows:

| | Revaluation of properties | | | |
|---|---|---|---|---|
| | Leasehold land and building | Investment properties | Properties under development | Total |
| **The Group** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2013 | – | 98,440 | 76,608 | 175,048 |
| Charged to profit or loss | – | 4,250 | – | 4,250 |
| At 31 December 2013 and at 1 January 2014 | **–** | **102,690** | **76,608** | **179,298** |
| Reallocation | **6,813** | **(6,813)** | **–** | **–** |
| Charged to profit or loss | **–** | **(10,250)** | **–** | **(10,250)** |
| At 31 December 2014 | **6,813** | **85,627** | **76,608** | **169,048** |

As at 31 December 2014, the Group and the Company have estimated unutilised tax losses of approximately RMB302,247,000 (2013: RMB147,136,000) and RMB44,676,000 (2013: RMB21,317,000) respectively for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB71,639,000 (2013: RMB35,316,000) which may be carried forward indefinitely, and the remaining balance of RMB230,608,000 (2013: RMB111,820,000) which expires in 2019.

## 37. SHARE CAPITAL

### (a) Authorised and issued share capital

| **The Group and the Company** | Number of shares *'000* | Nominal value of share capital *HK$'000* | Equivalent nominal value of share capital *RMB'000* |
|---|---|---|---|
| **Authorised:** | | | |
| Ordinary shares of HK$0.01 each | 29,000,000 | 290,000 | 301,600 |
| Convertible preference shares of HK$0.01 each | 1,000,000 | 10,000 | 9,716 |
| At 31 December 2013 and 2014 | **30,000,000** | **300,000** | **311,316** |
| **Issued and fully paid:** | | | |
| *Ordinary shares of HK$0.01 each* | | | |
| At 1 January 2013 and 31 December 2013 and 2014 | **2,216,531** | **22,165** | **21,068** |
| *Convertible preference shares of HK$0.01 each* | | | |
| At 1 January 2013 and 31 December 2013 and 2014 | – | – | – |
| | **2,216,531** | **22,165** | **21,068** |

## 37. SHARE CAPITAL (continued)

### (b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

The gearing ratio as at the end of the reporting period is calculated based on the following:

| The Group | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| Total debt | **2,274,859** | 1,046,022 |
| Less: restricted bank deposits backing up the money market loans | **(297,200)** | – |
| Less: cash and cash equivalents | **(201,105)** | (300,516) |
| Net debt | **1,776,554** | 745,506 |
| Equity attributable to owners | **1,710,054** | 1,849,981 |
| Capital plus net debt | **3,486,608** | 2,595,487 |
| Gearing ratio (Net debt/Capital pus net debt) | **51.0%** | 28.7% |

## 38. RESERVES

| The Group | Share premium RMB'000 | Contributed surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Property revaluation reserve RMB'000 | Merger reserve RMB'000 | Statutory reserves RMB'000 | Foreign exchange reserve RMB'000 | Other/ capital reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 1,507,182 | 16,116 | 13,674 | 34,499 | (293,095) | 6,471 | (371) | 7,351 | 471,538 | 1,763,365 |
| Recognition of equity-settled share-based payment expenses | – | – | 1,275 | – | – | – | – | – | – | 1,275 |
| Reallocation of lapsed options from share-based payment reserve to retained profits | – | – | (1,444) | – | – | – | – | – | 1,444 | – |
| Exchange differences arising on foreign operations | – | – | – | – | – | – | 284 | – | – | 284 |
| Profit for the year | – | – | – | – | – | – | – | – | 63,989 | 63,989 |
| **As at 31 December 2013 and at 1 January 2014** | **1,507,182** | **16,116** | **13,505** | **34,499** | **(293,095)** | **6,471** | **(87)** | **7,351** | **536,971** | **1,828,913** |
| Recognition of equity-settled share-based payment expenses | **–** | **–** | **907** | **–** | **–** | **–** | **–** | **–** | **–** | **907** |
| Reallocation of lapsed options from share-based payment reserve to retained profits | **–** | **–** | **(2,260)** | **–** | **–** | **–** | **–** | **–** | **2,260** | **–** |
| Exchange differences arising on foreign operations | **–** | **–** | **–** | **–** | **–** | **–** | **(325)** | **–** | **–** | **(325)** |
| Gain on disposal of a subsidiary, net of tax | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **743** | **–** | **743** |
| Transfer among reserves | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(7,351)** | **7,351** | **–** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(141,252)** | **(141,252)** |
| At 31 December 2014 | **1,507,182** | **16,116** | **12,152** | **34,499** | **(293,095)** | **6,471** | **(412)** | **743** | **405,330** | **1,688,986** |

## 38. RESERVES (continued)

| The Company | Share premium RMB'000 | Contributed surplus reserve RMB'000 | Share-based payment reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2013 | 1,507,182 | 16,116 | 13,674 | (18,298) | 1,518,674 |
| Recognition of equity-settled share-based payment expenses | – | – | 1,275 | – | 1,275 |
| Reallocation of lapsed options from share-based payment reserve to accumulated losses | – | – | (1,444) | 1,444 | – |
| Loss for the year | – | – | – | (64,674) | (64,674) |
| As at 31 December 2013 and at 1 January 2014 | **1,507,182** | **16,116** | **13,505** | **(81,528)** | **1,455,275** |
| Recognition of equity-settled share-based payment expenses | **–** | **–** | **907** | **–** | **907** |
| Reallocation of lapsed options from share-based payment reserve to accumulated losses | **–** | **–** | **(2,260)** | **2,260** | **–** |
| Loss for the year | **–** | **–** | **–** | **(121,986)** | **(121,986)** |
| At 31 December 2014 | **1,507,182** | **16,116** | **12,152** | **(201,254)** | **1,334,196** |

**(a) The following describes the nature and purpose of each reserve within owners' equity:**

Share premium — The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.

Contributed surplus reserve — The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the capital re-organisation.

Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve under certain circumstances.

Share-based payment reserve — The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(o).

## 38. RESERVES (continued)

**(a) The following describes the nature and purpose of each reserve within owners' equity: (continued)**

| | |
|---|---|
| Property revaluation reserve | Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007. |
| Merger reserve | The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited. |
| Statutory reserves | In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund. |
| Foreign exchange reserve | The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(m). |
| Capital reserve | The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company. |

**(b) Distributable reserves**

As at 31 December 2014, there were no distributable reserves available for distribution to owners of the Company (2013: Nil).

## 39. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**"). The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and nonexecutive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent. limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10 per cent. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 per cent. of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue at the offer date (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

## 39. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

Details of the movement of the share options are as follows:

| | | | | During the year ended 31 December 2013 | | | During the year ended 31 December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise period | Adjusted exercise price per share after the completion of rights issue | Number of options outstanding at 1 January 2013 | Options granted/ exercised | Options lapsed | Number of options outstanding at 31 December 2013 and 1 January 2014 | Options granted/ exercised | Options lapsed/ reallocated | Number of options outstanding at 31 December 2014 |
| 12 September 2006 | 13 March 2007 to 31 July 2015 | HK$1.2565 | 34,302,176 | – | (5,213,097) | 29,089,079 | – | – | 29,089,079 |
| 11 August 2011 | 11 August 2012 to 10 August 2021 | HK$0.6714 | 9,036,033 | – | – | 9,036,033 | – | (3,093,104) | 5,942,929 |
| 11 August 2011 | 11 August 2015 to 10 August 2021 | HK$0.6714 | 9,036,034 | – | – | 9,036,034 | – | (3,093,104) | 5,942,930 |
| 11 August 2011 | 11 August 2018 to 10 August 2021 | HK$0.6714 | 9,036,036 | – | – | 9,036,036 | – | (3,093,104) | 5,942,932 |
| | | | 27,108,103 | – | – | 27,108,103 | – | (9,279,312) | 17,828,791 |
| | | | 61,410,279 | – | (5,213,097) | 56,197,182 | – | (9,279,312) | 46,917,870 |
| *Analysis by category:* | | | | | | | | | |
| Directors | | | 7,089,810 | – | 10,426,194 | 17,516,004 | – | (5,213,097) | 12,302,907 |
| Other employees | | | 49,107,372 | – | (15,639,291) | 33,468,081 | – | (4,066,215) | 29,401,866 |
| Non-employees | | | 5,213,097 | – | – | 5,213,097 | – | – | 5,213,097 |
| | | | 61,410,279 | – | (5,213,097) | 56,197,182 | – | (9,279,312) | 46,917,870 |

The Group recognised RMB907,000 (2013: RMB1,275,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2014 in relation to share options granted by the Company. The number of exercisable options as at 31 December 2014 is 29,089,079 (2013: 29,089,079) (granted in 2006) and 9,036,033 (2013: 9,036,033) (granted in 2011) respectively. The weighted average remaining contractual life of the outstanding options as at 31 December 2014 is 2.34 years (2013: 3.49 years).

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of (loss)/profit before income tax to net cash from operating activities

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **(Loss)/profit before income tax** | **(168,326)** | 140,911 |
| *Adjustments for:* | | |
| Finance costs | **1,871** | 758 |
| Finance income | **(9,035)** | (28,374) |
| Equity-settled share-based payment expenses | **907** | 1,275 |
| Depreciation of property, plant and equipment | **9,074** | 1,871 |
| Amortisation of leasehold land | **3,407** | 246 |
| Exchange gain net | **(921)** | (7,492) |
| Fair value changes in financial derivative asset/liabilities | **(2,245)** | 3,957 |
| Gain on early redemption of promissory notes | **–** | (4,152) |
| Impairment loss on trade and other receivables | **236** | 14 |
| Bad debts recovered | **–** | (55) |
| Gain from bargain purchase | **(1,600)** | – |
| Loss on disposal of subsidiaries, net of tax *(Note (c))* | **15,830** | – |
| Loss on disposal of property, plant and equipment | **57** | 22 |
| Fair value changes in investment properties | **38,822** | (36,102) |
| Write-down/(reversal of write-down) of properties under development/properties held for sale | **38,759** | (23,572) |
| Impairment loss on goodwill | **–** | 313 |
| **Operating (loss)/profit before working capital changes** | **(73,164)** | 49,620 |
| Increase in properties under Tianhe Project | **(8,960)** | (3,066) |
| Increase in properties under development | **(2,086,833)** | (591,803) |
| Decrease in properties held for sale | **115,015** | 541,815 |
| Increase in consideration receivable | **–** | (6,366) |
| Increase in trade and other receivables | **(78,306)** | (227,475) |
| (Decrease)/increase in trade and other payables | **(11,399)** | 56,341 |
| Increase/(decrease) in properties pre-sale deposits | **1,323,958** | (234,978) |
| **Cash used in operations** | **(819,689)** | (415,912) |
| Income tax paid | **(19,385)** | (20,285) |
| Other borrowing costs paid | **(7,643)** | (32,564) |
| Interest paid | **(267,299)** | (45,450) |
| **Net cash used in operating activities** | **(1,114,016)** | (514,211) |

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (b) Business acquisition during the year

Pursuant to the 2nd supplemental agreement dated 1 April 2014, the Group acquired the interests in the remaining business operated by Tianyu Property Management and 貴陽譽浚物業管理有限公司 (Guiyang Yu Jun Property Management Company Limited) (“**Guiyang Property Management**”), companies whose principal activity is property management services. The acquisition was made with the aims to expand the Group’s existing scale of operation.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

| | | Carrying amount before acquisition | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | ***RMB’000*** | *RMB’000* |
| **Net assets acquired:** | | | |
| Property, plant and equipment | *17* | **189** | 22 |
| Trade and other receivables | | **3,826** | 615 |
| Cash and cash equivalents | | **7,541** | 7,170 |
| Trade and other payables | | **(9,809)** | (5,120) |
| Income tax payable | | **(35)** | – |
| Net assets | | **1,712** | 2,687 |
| Non-controlling interests | | **(112)** | – |
| Net assets attributable to the Group | | **1,600** | 2,687 |
| Goodwill arising on acquisition | *20* | **–** | 313 |
| Gain from bargain purchase | | **(1,600)** | – |
| | | **–** | 3,000 |
| **Satisfied by:** | | | |
| Cash consideration paid | | **–** | 3,000 |
| **Net inflow arising from the acquisition of subsidiaries:** | | | |
| Cash consideration paid | | **–** | (3,000) |
| Cash and cash equivalents acquired | | **7,541** | 7,170 |
| | | **7,541** | 4,170 |

The fair value of trade and other receivables amounted to approximately RMB3,826,000. The gross amount of these receivables is approximately RMB4,346,000, which was made accumulated impairment loss of approximately RMB520,000, and it is expected that the full contractual amount cannot be collected.

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

**(b) Business acquisition during the year (continued)**

The fair value of the shares issued was determined by reference to their quoted market price of RMB1 at the date of acquisition.

Since the consideration is lower than the fair value of the net assets acquired, gain on bargain purchase of approximately RMB1,600,000 is resulted.

The Group has elected to measure the non-controlling interest in Guiyang Property Management at acquisition-date fair value, which has been estimated by applying a discounted earnings approach with an assumed discount rate of 8.0%, a terminal value calculated based on long-term sustainable growth rates for the industry ranging from 3.0% to 5.0% that has been used to determine income for the future years.

Since the acquisition date, Tianyu Property Management and Guiyang Property Management has contributed approximately RMB27,410,000 and approximately RMB4,442,000 to Group's revenue and profit before elimination of intra-group transaction. If the acquisition had occurred on 1 January 2014, Group revenue and loss would have been approximately RMB163,789,000 and approximately RMB158,074,000 respectively.

**(c) Disposal of subsidiaries**

*Disposal of 55% interest in the Guiyang Project*

On 23 April 2014, a subsidiary of the Company, 廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited), entered into an agreement with two third parties, pursuant to which GZ Yu Jun agreed to dispose of its 55% equity interest in 貴州譽浚房地產開發有限公司 (Guizhou Yu Jun Real Estate Development Company Limited) ("**Guizhou Yu Jun**"), which is engaged in the development of Guiyang Project, and Guizhou Yu Jun to repay the shareholder loan owned to GZ Yu Jun by Guizhou Yu Jun. The 55% equity interest was transferred and the shareholder loan repaid at an aggregate consideration of approximately RMB160,491,000 on 1 July 2014, resulting in a loss of approximately RMB13,851,000 which was charged in the consolidated profit or loss for the year.

*Disposal of 90% interest in the Guiyang property management company*

On 11 November 2014, a subsidiary of the Company, Tianyu Property Management, entered into an agreement with Guizhou Yu Jun, pursuant to which Tianyu Property Management agreed to dispose of the 90% equity interest in Guiyang Property Management. The 90% equity interest was transferred of RMB900,000. The disposal, completed on 20 November 2014, resulting in a loss of approximately RMB1,979,000 which was charged in the consolidated profit or loss for the year.

*Disposal of 15% interest in the Nanning Skyfame Garden Project*

On 15 July 2014, 南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited), an indirect wholly owned subsidiary of the Company, entered into an agreement with 廣西世紀巨成項目投資有限公司 (Guangxi Shiji Jucheng Project Investment Company Limited) ("**Guangxi Shiji Jucheng**"), a non-controlling shareholder of the Company's subsidiary holding 5% equity interest in the project company engaged in the development of Nanning Skyfame Garden Project, 南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited) ("**Nanning Tianyu Jucheng**") to transfer 15% of the registered capital of Nanning Tianyu Jucheng at a consideration of RMB7,500,000. The transfer was completed on 17 July 2014. Following the transfer of shares, the interest in Nanning Tianyu Jucheng is 80% held by the Group and 20% held by Guangxi Shiji Jucheng. This is an equity transaction with the non-controlling interests and therefore the difference between the consideration received and the 15% of non-controlling interests is recorded directly in equity.

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (c) Disposal of subsidiaries (continued)

The carrying amounts of the major assets and liabilities in this disposal group as at 31 December 2014 are as follows:

| | Note | 55% interest in Guiyang Project RMB'000 | 90% interest in Guiyang property management company RMB'000 | 15% interest in Nanning Skyfame Garden Project RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Net assets disposed of:** | | | | | |
| Property, plant and equipment | | 165 | 47 | – | **212** |
| Properties under development | 24 | 614,494 | – | – | **614,494** |
| Properties held for sale | | 164,257 | – | – | **164,257** |
| Trade and other receivables | | 57,783 | 4,944 | – | **62,727** |
| Restricted cash | | 7,047 | – | – | **7,047** |
| Cash and cash equivalents | | 16,361 | 1,038 | – | **17,399** |
| Trade and other payables | | (127,028) | (2,143) | – | **(129,171)** |
| Prepaid tax/Income tax payable | | 17,303 | (687) | – | **16,616** |
| Properties pre-sale deposits | | (433,995) | – | – | **(433,995)** |
| Advanced payments received from customers | | (15,792) | – | – | **(15,792)** |
| Other borrowings | | (17,000) | – | – | **(17,000)** |
| Loan from non-controlling shareholder of a subsidiary | | (72,261) | – | – | **(72,261)** |
| Non-controlling interests | | (37,928) | (320) | 6,757 | **(31,491)** |
| Amount due to immediate holding company | | (92,989) | – | – | **(92,989)** |
| Net assets disposed of | | 80,417 | 2,879 | 6,757 | **90,053** |
| Assignment of amount due to immediate holding company | | 92,989 | – | – | **92,989** |
| Direct expenses incurred | | 936 | – | – | **936** |
| | | 174,342 | 2,879 | 6,757 | **183,978** |
| (Loss)/gain on disposal of subsidiaries, net of tax | | | | | |
| – charged to profit or loss | | (13,851) | (1,979) | – | **(15,830)** |
| – recorded to equity | | – | – | 743 | **743** |
| Total consideration | | 160,491 | 900 | 7,500 | **168,891** |
| **Satisfied by:** | | | | | |
| Cash | | 160,491 | 900 | 7,500 | **168,891** |
| **Net cash inflow arising from the disposal:** | | | | | |
| Cash consideration received | | 160,491 | 900 | 7,500 | **168,891** |
| Direct expenses incurred | | (936) | – | – | **(936)** |
| Cash received | | 159,555 | 900 | 7,500 | **167,955** |
| Bank balances and cash disposed of | | (16,361) | (1,038) | – | **(17,399)** |
| | | 143,194 | (138) | 7,500 | **150,556** |

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (d) Significant non-cash transactions

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Operating activities** | | |
| Decrease in consideration receivable | – | 130,138 |
| Decrease in trade and other receivables | – | 17,363 |
| **Investing activities** | | |
| Default interest income on overdue consideration receivable | – | 18,392 |
| Acquisition of investment property | – | (79,838) |
| Purchase of property, plant and equipment | – | (148,530) |
| **Financing activities** | | |
| New bank and other borrowings | – | 62,475 |
| | – | – |

## 41. EMPLOYEE RETIREMENT BENEFITS

**Defined contribution pension plans**

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously participating in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (approximately RMB24,000), as increased from HK$25,000 since June 2014. The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

## 42. OPERATING LEASE COMMITMENTS

**Lessee**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

| The Group | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| Within one year | **58** | 741 |

**Lessor**

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

| The Group | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| Within one year | **18,069** | 11,209 |
| Later than one year but within five years | **45,811** | 24,385 |
| Later than five years | **28,364** | 9,371 |
| | **92,244** | 44,965 |

## 43. COMMITMENTS

| | **2014**<br>***RMB'000*** | 2013<br>*RMB'000* |
|---|---|---|
| **The Group** | | |
| Expenditure contracted but not provided for in respect of | | |
| – Property construction and development costs | **2,467,864** | 1,284,323 |
| Expenditure authorised but not contracted for in respect of | | |
| – Property construction and development costs | **1,631,094** | 1,895,745 |
| – Acquisition of land use rights | **931,648** | 931,648 |
| | **2,562,742** | 2,827,393 |
| **The Company** | | |
| Expenditure authorised but not contracted for in respect of | | |
| – Property construction and development costs | **1,631,094** | 1,895,745 |
| – Acquisition of land use rights | **931,648** | 931,648 |
| | **2,562,742** | 2,827,393 |

## 44. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2014 (2013: Nil).

## 45. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the Group's assets included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

| The Group | **2014** *RMB'000* | 2013 *RMB'000* |
|---|---|---|
| Leasehold land and building | **219,293** | 152,709 |
| Investment properties | **556,533** | 667,826 |
| Properties under development | **2,231,110** | 1,759,691 |
| Properties held for sale | **125,526** | 20,833 |
| Short term investments | **200,000** | – |
| Pledged deposits | **297,200** | – |
| | **3,629,662** | 2,601,059 |

At the end of the reporting period, shares in certain subsidiaries of the Company were also charged to secure the trust loan and Secured Bonds and the loan facilities were secured by corporate guarantees provided by the Company, the certain subsidiaries and company controlled by Mr. YU Pan and personal guarantee given by Mr. YU Pan and/or his spouse, which are disclosed in notes 33(a) to 33(f).

## 46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

**(a) Material transactions with related parties**

| Related party relationship | Type of transaction | **2014** *RMB'000* Transaction amount | 2013 *RMB'000* Transaction amount |
|---|---|---|---|
| Companies beneficially owned by Mr. YU Pan and his spouse | (a) Rental income from office leasing | **111** | – |
| | (b) Interest expenses on short-term loan | **(675)** | – |

## 46. RELATED PARTY TRANSACTIONS (continued)

### (b) Personal guarantee by the Chairman

As at 31 December 2014, Mr. YU Pan and his spouse have provided personal guarantee to a bank in respect of banking facilities extended to the sino-foreign co-operative company, Yucheng, as set out in note 33(a).

As at 31 December 2014, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to a financial institution in respect of the trust loan facility extended to a Company's subsidiary, which are disclosed in notes 33(c) and 33(d).

### (c) Compensation of key management personnel

The remuneration of members of key management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short-term benefits | **10,834** | 10,680 |
| Other long-term benefits | **272** | 209 |
| Equity-settled share-based payment expenses | **655** | 1,069 |
| | **11,761** | 11,958 |

Members of key management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

## 47. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include derivative financial asset, short-term investments, cash and cash equivalents, restricted and pledged deposits, consideration receivable and trade and other receivables. Financial liabilities of the Group include trade and other payables, bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

## 47. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

### (a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's and the Company's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Derivative financial asset | | | | |
| – HK$ | **–** | 2,076 | **–** | 2,076 |
| Cash and cash equivalents | | | | |
| – US$ | **34,857** | 995 | **123** | – |
| – HK$ | **19,273** | 2,080 | **18,400** | 55 |
| Bank and other borrowings | | | | |
| – US$ | **(189,689)** | – | **–** | – |
| – HK$ | **(746,027)** | (524,919) | **(349,099)** | (452,802) |
| Derivative financial liabilities | | | | |
| – HK$ | **(32)** | (27,792) | **(32)** | (27,792) |

## 47. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

### (a) Foreign currency risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's and the Company's (loss)/profit after income tax in the next accounting period:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Change in exchange rate** | **Increase (decrease) in loss after income tax** | Change in exchange rate | (Decrease)/ increase in profit after income tax |
| | **%** | ***RMB'000*** | % | *RMB'000* |
| **The Group** | | | | |
| If United States dollar weakens against Renminbi | 4% | **6,193** | 4% | (40) |
| If United States dollar strengthens against Renminbi | 4% | **(6,193)** | 4% | 40 |
| If Hong Kong dollar weakens against Renminbi | 4% | **29,071** | 4% | 21,942 |
| If Hong Kong dollar strengthens against Renminbi | 4% | **(29,071)** | 4% | (21,942) |
| **The Company** | | | | |
| If Hong Kong dollar weakens against Renminbi | 4% | **13,229** | 4% | 19,139 |
| If Hong Kong dollar strengthens against Renminbi | 4% | **(13,229)** | 4% | (19,139) |

## 47. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

### (b) Interest rate risk

The following table details the interest rate profile of the Group's and the Company's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Effective interest rate** *(% per annum)* | **Amount** *RMB'000* | Effective interest rate *(% per annum)* | Amount *RMB'000* |
| **The Group** | | | | |
| **Financial assets** | | | | |
| Fixed rate receivables | | | | |
| – Short term investments | **2.10% to 5.00%** | **244,000** | – | – |
| – Restricted and pledged deposits | **3.08%** | **297,200** | – | – |
| Floating rate receivables | | | | |
| – Restricted and pledged deposits | **0.35%** | **37,644** | 0.35% | 57,660 |
| – Other cash at bank | **0.01% to 0.35%** | **198,212** | 0.01% to 0.35% | 300,516 |
| **Financial liabilities** | | | | |
| Non-interest bearing borrowings | | | | |
| – Loans from non-controlling shareholders of a subsidiary | **–** | **–** | – | 84,803 |
| Fixed rate borrowings | | | | |
| – Other borrowings | **12.05% to 20.00%** | **1,073,099** | 18.9% to 19.07% | 452,802 |
| Floating rate borrowings | | | | |
| – Bank borrowings | **2.75% to 7.38%** | **1,201,728** | 2.75% to 7.38% | 480,625 |
| **The Company** | | | | |
| **Financial assets** | | | | |
| Floating rate receivables | | | | |
| – Other cash at bank | **0.01%** | **17,249** | 0.01% | 55 |
| **Financial liabilities** | | | | |
| Fixed rate borrowings | | | | |
| – Other borrowings | **12.05% to 20.00%** | **573,099** | 18.9% to 19.07% | 452,802 |

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

## 47. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

### (b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's and the Company's (loss)/profit after income tax in the next accounting period:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in basis points** | **(Decrease)/ increase in loss after income tax** ***RMB'000*** | Increase/ (decrease) in basis points | Increase/ (decrease) in profit after income tax *RMB'000* |
| **The Group** | | | | |
| **Floating rate financial assets** | | | | |
| Increase in floating rate | **100** | **2,359** | 100 | 3,582 |
| Decrease in floating rate | **(100)** | **(2,359)** | (100) | (3,582) |
| **Floating rate financial liabilities** | | | | |
| Increase in floating rate | **500** | **(3,323)** | 500 | – |
| Decrease in floating rate | **(500)** | **3,323** | (500) | – |
| **The Company** | | | | |
| **Floating rate financial assets** | | | | |
| Increase in floating rate | **100** | **172** | 100 | 1 |
| Decrease in floating rate | **(100)** | **(172)** | (100) | (1) |

### (c) Credit risk

The Group's exposure to credit risk arises from the consideration receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the purchaser of the Company's stake interests in Huan Cheng.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

## 47. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

### (d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

| | Total undiscounted cashflow | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | Total | Carrying amount |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **The Group** | | | | | | | | |
| **2014** | | | | | | | | |
| Trade and other payables | **4,053** | **27,152** | **197,569** | **–** | **–** | **–** | **228,774** | **228,774** |
| Bank and other borrowings | **113,792** | **328,518** *(Note)* | **1,039,578** *(Note)* | **905,256** | **–** | **205,114** | **2,592,258** | **2,274,827** |
| Guarantee for property mortgage | **140,111** | **–** | **–** | **–** | **–** | **–** | **140,111** | **–** |
| | **257,956** | **355,670** | **1,237,147** | **905,256** | **–** | **205,114** | **2,961,143** | **2,503,601** |
| 2013 | | | | | | | | |
| Trade and other payables | 29,912 | 22,681 | 176,147 | – | – | – | 228,740 | 228,740 |
| Bank and other borrowings | 72,117 | 20,020 | 321,356 | 576,192 | 156,044 | – | 1,145,729 | 933,427 |
| Loans from non-controlling shareholders of a subsidiary | – | – | 84,803 | – | – | – | 84,803 | 84,803 |
| Guarantee for property mortgage | 745,642 | – | – | – | – | – | 745,642 | – |
| | 847,671 | 42,701 | 582,306 | 576,192 | 156,044 | – | 2,204,914 | 1,246,970 |
| **The Company** | | | | | | | | |
| **2014** | | | | | | | | |
| Other payables | **698** | **1,310** | **12,708** | **–** | **–** | **–** | **14,716** | **14,716** |
| Other borrowings | **–** | **7,898** | **475,031** | **64,008** | **–** | **205,114** | **752,051** | **537,099** |
| Amounts due to subsidiaries | **1,409,513** | **–** | **–** | **–** | **–** | **–** | **1,409,513** | **1,409,513** |
| Financial guarantee contract | **803,481** | **–** | **–** | **–** | **–** | **–** | **803,481** | **–** |
| | **2,213,692** | **9,208** | **487,739** | **64,008** | **–** | **205,114** | **2,979,761** | **1,961,328** |
| 2013 | | | | | | | | |
| Other payables | 2,268 | 498 | 885 | – | – | – | 3,651 | 3,651 |
| Other borrowings | – | 13,582 | 298,020 | 281,145 | – | – | 592,747 | 452,802 |
| Amounts due to subsidiaries | 773,200 | – | – | – | – | – | 773,200 | 773,200 |
| Financial guarantee contract | 72,117 | – | – | – | – | – | 72,117 | – |
| | 847,585 | 14,080 | 298,905 | 281,145 | – | – | 1,441,715 | 1,229,653 |

*Note:* As at 31 December 2014, the bank borrowings of the Group of approximately RMB472,825,000, were secured by standby letters of credit issued by two banks that were secured by the Group's bank deposits of RMB297,200,000 and short term investments of RMB200,000,000 respectively maturing at the same time of the bank borrowing.

## 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and of the Company at the end of the reporting period:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| **The Group** | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | |
| ***Loans and receivable*** | | | | |
| – Trade and other receivables | **467,037** | ***(Note)*** | 453,931 | *(Note)* |
| – Consideration receivable | **105,000** | ***(Note)*** | 105,000 | *(Note)* |
| – Short term investments | **244,000** | ***(Note)*** | – | – |
| – Restricted and pledged deposits | **334,844** | ***(Note)*** | 57,660 | *(Note)* |
| – Cash and cash equivalents | **201,105** | ***(Note)*** | 300,516 | *(Note)* |
| ***Fair value through profit or loss*** | | | | |
| – Derivative financial asset | **–** | **–** | 2,076 | 2,076 |
| **Financial liabilities** | | | | |
| ***Financial liabilities at amortised costs*** | | | | |
| – Trade and other payables | **228,774** | ***(Note)*** | 228,740 | *(Note)* |
| – Bank and other borrowings: | | | | |
| the Secured Loan | **–** | **–** | 228,768 | 223,197 |
| the Secured Bonds | **244,642** | **252,125** | 224,034 | 209,224 |
| other than the Secured Loan and Secured Bonds | **2,030,184** | ***(Note)*** | 480,625 | *(Note)* |
| – Loans from non-controlling shareholders of a subsidiary | **–** | **–** | 84,803 | *(Note)* |
| ***Fair value through profit or loss*** | | | | |
| – Derivative financial liabilities | **32** | **32** | 27,792 | 27,792 |

## 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| **The Company** | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | |
| ***Loans and receivable*** | | | | |
| – Amounts due from subsidiaries | **2,298** | ***(Note)*** | 3,239 | *(Note)* |
| – Other receivables | **8,695** | ***(Note)*** | 387 | *(Note)* |
| – Cash and cash equivalents | **18,523** | ***(Note)*** | 55 | *(Note)* |
| ***Fair value through profit or loss*** | | | | |
| – Derivative financial asset | **–** | **–** | 2,076 | 2,076 |
| **Financial liabilities** | | | | |
| ***Financial liabilities at amortised costs*** | | | | |
| – Accruals and other payables | **14,716** | ***(Note)*** | 3,651 | *(Note)* |
| – Amounts due to subsidiaries | **1,409,513** | ***(Note)*** | 773,200 | *(Note)* |
| – Financial guarantee contract | **–** | **–** | – | – |
| – Other borrowings: | | | | |
| the Secured Loan | **–** | **–** | 228,768 | 223,197 |
| the Secured Bonds | **244,642** | **252,125** | 224,034 | 209,224 |
| other than the Secured Loan and Secured Bonds | **328,457** | ***(Note)*** | – | – |
| ***Fair value through profit or loss*** | | | | |
| – Derivative financial liabilities | **32** | **32** | 27,792 | 27,792 |

*Note:* The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair values of financial assets and financial liabilities are determined as follows:

– The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

– The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

## 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| The Group and the Company | **2014** **Level 3** ***RMB'000*** | 2013 Level 3 *RMB'000* |
|---|---|---|
| **Financial asset at fair value through profit or loss** | | |
| – Derivative | **–** | 2,076 |
| **Financial liabilities at fair value through profit or loss** | | |
| – Derivatives | **32** | 27,792 |

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

| The Group and the Company | **Financial asset** ***RMB'000*** | **Financial liabilities** ***RMB'000*** | **2014** ***RMB'000*** | 2013 *RMB'000* |
|---|---|---|---|---|
| At 1 January | (2,076) | 27,792 | **25,716** | 19,191 |
| Issue of the Secured Bonds | – | – | **–** | 3,179 |
| Early repayment of Secured Loan | – | (23,715) | **(23,715)** | – |
| Total gains or losses: | | | | |
| – Changes in fair value recognised in profit or loss during the year | 2,095 | (4,340) | **(2,245)** | 3,956 |
| – Exchange differences | (19) | 295 | **276** | (610) |
| At 31 December | – | 32 | **32** | 25,716 |

During the year ended 31 December 2014, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## 48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

| Financial asset/ liabilities | Fair value | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Financial asset at fair value through profit or loss | Derivative financial asset – Company Repurchase Rights | Level 3 | The fair value of Company Repurchase Rights is calculated using the Binomial model.<br><br>Key inputs:<br>– Fair value of the underlying shares of the property project;<br>– Discount rate; | The fair value of the underlying properties based on valuation *(note)* and illiquidity discount rate | The higher the fair value of the underlying shares of the property project, the higher the fair value.<br><br>The higher the discount rate, the lower the fair value. |
| Financial liabilities at fair value through profit or loss | Derivative financial liabilities – Exchange Rights | Level 3 | The value of the Exchange Rights is the difference between the value of the Exchangeable Bonds calculated by binomial model, without the Company Repurchase Rights and the Holder Repurchase Rights, and that of the same instrument but without the Exchange Rights.<br><br>Key inputs:<br>– Fair value of the underlying shares of the property project;<br>– Discount rate; | The fair value of the underlying properties based on valuation *(note)* and illiquidity discount rate | The higher the fair value of the underlying shares of the property project, the higher the fair value.<br><br>The higher the discount rate, the lower the fair value. |
| Financial liabilities at fair value through profit or loss | Derivative financial liabilities – Holder Repurchase Rights | Level 3 | The fair value of the Holder Repurchase Rights is calculated using the Binomial model.<br><br>Key inputs:<br>– Fair value of the underlying shares of the property project;<br>– Discount rate; | The fair value of the underlying properties based on valuation *(note)* and illiquidity discount rate | The higher the fair value of the underlying shares of the property project, the higher the fair value.<br><br>The higher the discount rate, the lower the fair value. |

*Note:* If the fair value of the underlying properties is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial asset (Company Repurchase Rights), derivative financial liabilities (Exchange Rights and Holder Repurchase Rights) would increase/decrease by approximately RMB87,000 and approximately RMB16,000 respectively as at 31 December 2014 (2013: RMB605,000 and RMB574,000).

If the illiquidity discount is 1% higher/lower while all other variables were held constant, the carrying amount of the derivative financial asset (Company Repurchase Rights), derivative financial liabilities (Exchange Rights and Holder Repurchase Rights) would decrease/increase by approximately RMB8,000 and approximately RMB16,000 respectively as at 31 December 2014 (2013: RMB126,000 and RMB126,000).

## 49. EVENTS AFTER THE END OF THE REPORTING PERIOD

南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited), a wholly-owned subsidiary of the Company, was successful in the public auction for the land use rights of three pieces of land of site area of 194,220.95 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi province, the PRC at an aggregate consideration of RMB705,022,049 offered by 南寧市國土資源局 (Land Resources Bureau of Nanning). The development is planned to be a composite project that comprises residential and commercial properties of shopping mall, hotel, offices, car parks for sale and leasing and other ancillary facilities with a planned total gross floor area of approximately 1.4 million sq.m.. Based on the latest design plans, a total saleable area in GFA of approximately 1,382,000 sq.m. will be developed of which GFA of retail properties, consisting of shopping mall and street-front shops) is approximately 93,000 sq.m., offices is approximately 427,000 sq.m., hotel is approximately 45,000 sq.m., leisure and entertainment facilities is approximately 33,000 sq.m., residential properties is approximately 492,000 sq.m., and car parking spaces is approximately 292,000 sq.m.. To fulfil the condition of the grant of land, the directors determine that a total GFA of approximately 50,000 sq.m. of retail properties shopping mall will be held for a holding period of not less than 20 years. The remaining saleable area will be developed for sale. Preliminary development works will be commenced in the first half of 2015 right after the signing of the land transfer contract.

## 50. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 20 March 2015.

# FIVE YEAR FINANCIAL SUMMARY

The following table summarizes the results, assets and liabilities of the Group:

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **RESULTS** | | | | | |
| ***For the year ended 31 December*** | | | | | |
| Revenue | **157,870** | 675,706 | 53,803 | 32,951 | 366,493 |
| (Loss)/profit before income tax | **(168,326)** | 140,911 | (113,773) | (69,429) | 926,949 |
| Income tax (expense)/credit | **8,346** | (28,238) | (8,157) | 7,600 | (45,798) |
| (Loss)/profit before income tax | **(159,980)** | 112,673 | (121,930) | (61,829) | 881,151 |
| Attributable to | | | | | |
| – Owners of the Company | **(141,252)** | 63,989 | (79,976) | (51,861) | 871,435 |
| – Non-controlling interests | **(18,728)** | 48,684 | (41,954) | (9,968) | 9,716 |
| | **(159,980)** | 112,673 | (121,930) | (61,829) | 881,151 |
| **FINANCIAL POSITION** | | | | | |
| ***At 31 December*** | | | | | |
| Total assets | **6,924,966** | 5,007,247 | 4,703,820 | 4,417,261 | 4,032,560 |
| Total liabilities | **(5,189,352)** | (3,081,598) | (2,900,903) | (2,792,111) | (2,386,074) |
| Net assets | **1,735,614** | 1,925,649 | 1,802,917 | 1,625,150 | 1,646,486 |
| Non-controlling interests | **(25,560)** | (75,668) | (18,484) | (60,438) | (31,406) |
| Equity attributable to owners of the Company | **1,710,054** | 1,849,981 | 1,784,433 | 1,564,712 | 1,615,080 |

# PARTICULARS OF PROPERTY PORTFOLIO

| Location | Lease period | Site area | Development type | Gross floor area (GFA) | Effective equity interest % held | Stage of development | Anticipated completion of construction | Market value in existing state | Market value attributable to the Group | Carrying book value | Carrying book value attributable to the Group |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *(sq.m.)* | | *(sq.m. approx.)* | | | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| (A) Details of the Group's properties under development/held for sale at 31 December 2014 are as follows: | | | | | | | | | | | |
| 1. Zhoutouzui Project – | 2009 | 43,609 | **Above ground:** | | 100% | Construction | 2016 to 2017 | **4,700,000** | **4,700,000** | 1,971,100 | 1,971,100 |
| Skyfame Byland, the north of | to | | Residential | 148,552 | | in progress | | *(Note 1)* | *(Note 2)* | | |
| Machong, west of Hongde Road, | 2049/ | | Hotel/ | 8,275 | | | | | | | |
| south and east of Pearl River, | 2059/ | | Serviced apartment | | | | | | | | |
| Haizhu District, Guangzhou, | 2079 | | Office | 26,067 | | | | | | | |
| Guangdong Province, the PRC. | | | Commercial | 3,069 | | | | | | | |
| | | | Refuge storey, open floor and municipal facilities | 24,820 | | | | | | | |
| | | | Kindergarten | 2,881 | | | | | | | |
| | | | | 213,664 | | | | | | | |
| | | | Reserved building | 5,904 | | | | | | | |
| | | | | 219,568 | | | | | | | |
| | | | **Underground:** | | | | | | | | |
| | | | Commercial | 1,225 | | | | | | | |
| | | | Carparks (2,093 lots) | 79,654 | | | | | | | |
| | | | Utility rooms and others | 18,643 | | | | | | | |
| | | | | 99,522 | | | | | | | |
| | | | Total | 319,090 | | | | | | | |
| 2. Yongzhou Project – | 2011 | 70,950 | **Completed** | | 70% | Construction | 2014 to 2016 | **527,000** | **368,900** | 371,983 | 260,388 |
| Tianyu Huafu, Junction of Yangming | to | | Commercial | 14,770 | | in progress | | *(Note 1)* | | | |
| Avenue, Xiangkouguan Road | 2051/ | | Low rise residential | 738 | | | | | | | |
| and Lizhi Road, Lingling | 2081 | | Villa | 13,364 | | | | | | | |
| District, Yongzhou, Hunan | | | Municipal facilities | 1,698 | | | | | | | |
| Province, the PRC. | | | | 30,570 | | | | | | | |
| | | | **Under development** | | | | | | | | |
| | | | Commercial | 10,278 | | | | | | | |
| | | | High rise residential | 108,721 | | | | | | | |
| | | | Villa | 1,687 | | | | | | | |
| | | | Refuge storey and open floor | 2,056 | | | | | | | |
| | | | Basements: | | | | | | | | |
| | | | – Utility rooms and others | 2,502 | | | | | | | |
| | | | – Carparks (578 lots) | 18,886 | | | | | | | |
| | | | | 144,130 | | | | | | | |
| | | | Total | 174,700 | | | | | | | |
| 3. Nanning Skyfame Garden | 2014 | 231,563 | **For sale** | | 80% | Construction | 2013 to 2015 | **1,623,000** | **1,298,400** | 1,610,727 | 1,288,582 |
| Project – | to | | Residential | 626,304 | | in progress | | *(Note 1)* | | | |
| Nanning Skyfame | 2054 | | Commercial | 34,480 | | | | | | | |
| Garden, Liangxing Road, | | | Refuge storey, open floor and municipal facilities | 42,064 | | | | | | | |
| Wuxiang New District, | | | | | | | | | | | |
| Nanning, Guangxi Zhuang | | | | | | | | | | | |
| Autonomous District, the PRC. | | | Carparks (5,923 lots) | 183,935 | | | | | | | |
| | | | | 886,783 | | | | | | | |
| | | | **For resettlement** | | | | | | | | |
| | | | Residential | 175,009 | | | | | | | |
| | | | Commercial | 56,542 | | | | | | | |
| | | | Refuge storey, open floor and municipal facilities | 18,201 | | | | | | | |
| | | | Carparks (1,177 lots) | 39,537 | | | | | | | |
| | | | | 289,289 | | | | | | | |
| | | | Total | 1,176,072 | | | | | | | |
| | | | | 1,669,862 | | | | **6,850,000** | **6,367,300** | 3,953,810 | 3,520,070 |

# PARTICULARS OF PROPERTY PORTFOLIO

| Location | Lease period | Usage | Gross floor area (GFA) | Effective equity interest % held | Market value in existing state | Market value attributable to the Group |
|---|---|---|---|---|---|---|
| | | | *(sq.m. approx.)* | | *RMB'000* | *RMB'000* |
| (B) Details of the Group's investment properties at 31 December 2014 are as follows: | | | | | | |
| 1. Retail units on 2/F and 5/F, 22 units on mezzanine floor and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC. | 2000 to 2040 | Office/retail | 17,343 | 100% | **447,000** *(Note 1)* | **447,000** |
| 2. Unit 02-05, 14th Floor AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong. | 1928 to 2027 | Office | 813 | 100% | **109,533** *(Note 3)* | **109,533** |
| | | | 18,156 | | **556,533** | **556,533** |
| (C) Details of the Group's leasehold land and building at 31 December 2014 are as follows: | | | | | | |
| 1. Office units on levels 32 and 33 of HNA Tower, suited at 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province the PRC | 2001 to 2050 | Office | 4,126 | 100% | **156,800** *(Note 1)* | **156,800** |
| 2. Retail units on 6/F of the commercial podium, Tianyu Garden Phase 2, situated at 138 and 146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC. | 2000 to 2040 | Office/retail | 2,448 | 100% | **53,000** *(Note 1)* | **53,000** |
| 3. Unit 01, 14th Floor and Car Parking Space Nos.307 and 308 on 3rd Floor, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong. | 1928 to 2027 | Office/car parking | 534 | 100% | **75,306** *(Note 3)* | **75,306** |
| | | | 7,108 | | **285,106** | **285,106** |
| **Total (A to C)** | | | | | **7,691,639** | **7,208,939** |

*Notes:*

1. The properties under development/held for sales and completed properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Limited, Chartered Surveyors, as at 31 December 2014. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

2. The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese co-operative joint venture partner.

3. The properties were revalued on an open market value basis by an independent firm of professional valuers, Ascent Partners Valuation Service Limited, Chartered Surveyors, as at 31 December 2014.