XIWANG PROPERTY HOLDINGS COMPANY LIMITED
西王置業控股有限公司*

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock code 股份代號：2088

Annual Report
年報
2015


西王置业

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jin Tao *(Chief Executive Officer)*
(appointed on 26 October 2015)
Mr. WANG Wei Min (appointed on 26 October 2015)
Mr. WANG Chuan Wu *(Chief Executive Officer)*
(resigned on 26 October 2015)
Mr. ZHOU Xiang Lin (resigned on 26 October 2015)
Mr. CHENG Gang

Non-Executive Directors

Mr. WANG Di *(Chairman)*
Mr. WANG Yong *(Deputy Chairman)*
Mr. SUN Xinhu

Independent Non-Executive Directors

Mr. WONG Kai Ming
Mr. WANG An
Mr. YAO Yong Jun (appointed on 26 October 2015 and resigned on 23 March 2016)
Mr. WANG Shu Jie (resigned on 26 October 2015)
Mr. WANG Zhen (appointed on 23 March 2016)

COMMITTEES

Audit Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. WANG An
Mr. YAO Yong Jun (appointed on 26 October 2015 and resigned on 23 March 2016)
Mr. WANG Shu Jie (resigned on 26 October 2015)
Mr. WANG Zhen (appointed on 23 March 2016)

Remuneration Committee

Mr. WANG An *(Chairman)*
Mr. WONG Kai Ming
Mr. SUN Xinhu

Nomination Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. SUN Xinhu
Mr. YAO Yong Jun (appointed on 26 October 2015 and resigned on 23 March 2016)
Mr. WANG Shu Jie (resigned on 26 October 2015)
Mr. WANG Zhen (appointed on 23 March 2016)

COMPANY SECRETARY

Mr. WONG Kai Hing
(appointed on 20 November 2015)
Miss NG Weng Sin (resigned on 20 November 2015)

AUTHORISED REPRESENTATIVES

Mr. WANG Yong
Mr. WONG Kai Hing
(appointed on 20 November 2015)
Miss NG Weng Sin (resigned on 20 November 2015)
Mr. SUN Xinhu
(alternate to Mr. WANG Yong and Mr. WONG Kai Hing)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Xiwang Industrial Area
Zouping County
Shandong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2110, 21/F Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Construction Bank
The Bank of East Asia, Limited
Wing Lung Bank

AUDITORS

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

LEGAL ADVISERS

As to Hong Kong law:
Woo Kwan Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to Bermuda law:
Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS AND CORPORATE COMMUNICATION

Mr. WANG Jianxiang
Tel : (86) 543 461 9688
Email : ir@xiwangproperty.com

COMPANY WEBSITE

www.xiwangproperty.com

CHAIRMAN'S STATEMENT

WANG DI
Chairman and
Non-executive Director

Dear Shareholders,

The Group's business is based in Shandong Province. The real estate market of Shandong in 2015 followed a curve that first went down and then went up, showing a trend of resuming growth. The quantity of concluded deals was 130 million square meters, and the achieved transaction amount was RMB716.7 billion, representing an increase of 12.7% and 18.4% over the same term last year respectively. Meanwhile, newly constructed commodity housing with area of 101.47 million square meters was sold via online execution, with a sales amount of RMB590.35 billion, representing an increase of 9.8% and 15.7% respectively. Sales of second-hand housing with area of 29.26 million square meters were concluded, with a conclusion amount of RMB126.35 billion, representing an increase of 24.3% and 32.6% respectively. As of the end of December, Shandong has approved the presales of unsold stock commodity housing with area of 186 million square meters, with a clearance period of 22 months, which is 5.3 months shorter than that at the beginning of the year, among which there is stock commodity residence with area of 122 million square meters, with a clearance period of 17 months, which is 2.5 months shorter than that at the beginning of the year.

For the year ended 31 December 2015 (the "**Year**"), the property development business contributed revenue of approximately RMB101 million (2014: RMB122 million), to the Group. The revenue was mainly generated from Lanting Project and Meijun Project (Phase Two). Lanting Project (South Zone) has been completed in 2014 and approximately 73.3% of the GFA of the project had been sold as at 31 December 2015. Meijun Project (Phase Two) was completed in 2013 and 90.1% of the GFA of the project had been sold as at 31 December 2015.

In order to retain fund for operation and business development, the board (the "**Board**") of directors (the "**Directors**") of the Company do not recommend the payment of final dividend for both ordinary shares and convertible preference shares.

In view of the progress of urbanization and improvement of living standard of people in Shandong, our strategy will pay particular attention on developing properties of higher class. Besides, the Group will keep on seeking business opportunities for property development project.

I would like to take this opportunity to thank our shareholders, business partners, customers, the Board and our staff for their contribution in the past year.

WANG Di
Chairman

23 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Group was established in 2001 with headquarters located in Zouping County, Shandong Province of the PRC. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in December 2005.

The Group is principally engaged in property development in the PRC.

I. Business Review

The Group's sole source of revenue of the year is sales of developed property. Geographically, Shandong remains as the Group's main market. All revenues of the Group during the year were derived from Shandong.

The Group's turnover of the year is RMB100,783,000 (2014: RMB122,122,000), representing a decrease of 17.5% as compared to last year. The decrease of turnover is mainly due to decrease in gross floor area (the "**GFA**") sold as compared to last year, among which the GFA sold under Meijun Project decreased from 14,733 square meters in 2014 to 3,889 square meters in 2015, representing a decrease of 73.6%. The average GFA price increased from RMB3,524 per square meter in 2014 to RMB3,893 per square meter in 2015, representing an increase of 10.5%.

II. Financial Review

Operating results

1. Revenue

The Group's revenue amounted to RMB100,783,000 during the Year (2014: RMB122,122,000), representing a decrease of 17.5% as compared to last year. The decrease in revenue was mainly due to the decrease in GFA sold as compared to last year. The sales of Lanting Project, a high-class residential development, was higher than that of last year. The sales of each project was as follows:

	Revenue		**GFA sold**		**Average GFA price**	
	2015	2014	**2015**	2014	**2015**	2014
	RMB'000	RMB'000	**square metres ("sq m")**	sq m	**RMB/ sq m**	RMB/ sq m
Meijun Project	**11,116**	43,086	**3,889**	14,733	**2,858**	2,924
Lanting Project	**89,667**	78,740	**22,002**	19,838	**4,075**	3,969
	100,783	121,826	**25,891**	34,571	**3,893**	3,524
Others*	**–**	296				
	100,783	122,122				

* Others mainly represent rental income from car parking units

MANAGEMENT DISCUSSION AND ANALYSIS

LANTING PROJECT

Lanting Project is located at the junction between the south of Heban 3rd Road and the west of Liquan 1st Road which is a newly developed area in Zouping County closed to the county government headquarters, Lanting Project is a comprehensive residential development which is developed in two phases, known as North Zone and South Zone. There are 11 blocks of 6 to 14-storey residential buildings providing around 390 residential units.

MEIJUN PROJECT

Meijun Project is located at the east of Daiqi 3rd Road South of Chengnan New District, a newly developed area in Zouping County and the county government headquarters, hospital and colleges are nearby. The Meijun Project is a residential development divided into 3 phases. Phase One, completed in December 2008, comprises 4 blocks of 5-storey residential buildings providing around 110 residential units. Phase Two comprises 19 blocks of 5 to 18-storey residential buildings providing around 700 residential units, and was completed in December 2013. Phase Three is in the planning stage.

MANAGEMENT DISCUSSION AND ANALYSIS

QINGHE PROJECT

Qinghe Project is located at Kaihe Village, Handian Town of Zouping County. The project comprises a parcel of land with a site area of approximately 131,258 sq m for the construction of residential units. The construction work in respect of the area is expected to commence in 2016 and be completed in 2020. During the year ended 31 December 2015, Qinghe Home Settlements were under construction.

2. Cost of sales

The Group's cost of sales amounted to RMB109,654,000 during the Year (2014: RMB176,855,000), representing an decrease of 38.0% as compared to last year. The decrease in cost of sales was mainly due to (i) the sales of Meijun Project decreased as compared to that of last year, (ii) and impairment provision made for completed properties held for sale decreased as compared to that of last year.

	2015	2014
	RMB'000	RMB'000
Costs of land	**7,439**	8,017
Compensation for relocation	**30,798**	25,991
Development costs	**70,108**	72,110
Write-down of completed properties held for sale to net realisable value	**5,210**	40,644
Reversal of write-down of completed properties held for sale to net realisable value	**(32,384)**	–
Other costs^^	**28,483**	30,093
	109,654	176,855
Average Floor Area cost (RMB/sq m)	**4,235**	5,116
Average Floor Area cost (net of impairment reversals/provisions) (RMB/sq m)	**5,285**	3,940

^^ Other costs include loan interests capitalised, planning fees, initial fees, adjustments to fair value and taxes.

3. Gross loss

The Group's gross loss amounted to RMB8,871,000 during the Year (2014: RMB54,733,000), representing a decrease of 83.8% as compared to last year. The gross loss margin was 8.8% (2014 gross loss margin: 44.8%) and was 36 percentage points lower than that of last year. The decrease in gross loss margin was mainly due to:

(i) the average GFA price of Lanting Project (its revenue accounts for 89.0% of our total revenue) increased slightly by RMB106 per sq m or 2.7%.

(ii) Reversal of write-down of completed properties held for sale amounted to RMB32,384,000 for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Other income

Other income represents gain on deregistration of a subsidiary during the Year. Other income amounted to RMB704,000 during the Year (2014: RMB908,000), representing a decrease of 22.5% as compared to that of last year, which was mainly due to no interest income from promissory note received during the year as Xiwang Investment had repaid the remaining balance of promissory note payable to the Company last year.

5. Other expenses

Other expenses represent exchange loss. The exchange loss amounted to RMB4,732,000 during the Year (2014: RMB1,771,000), representing an increase of 1.7 times as compared to that of last year. The exchange loss incurred during the Year was mainly attributable to RMB deposits and the unrealised foreign exchange loss arising from the intragroup monetary balances in group companies in Hong Kong.

6. Selling and marketing expenses

Selling and marketing expenses include wages of sales staff, entertainment expenses and advertisement expenses. The expenses amounted to RMB291,000 during the Year (2014: RMB3,440,000), which decreased by 91.5% as compared to that of last year. It was mainly due to the decrease in property sale promotion activities during the Year.

7. Administrative expenses

Administrative expenses include general administrative fees, legal and professional fees, salaries of management and administrative staff. The administrative expenses amounted to RMB7,245,000 during the Year (2014: RMB28,721,000), representing a decrease of 74.8% as compared to that of last year, which was mainly because no write-off of long-term prepayment incurred during the Year (2014: RMB18,459,000).

8. Income tax credit

The Group credited an income tax of RMB5,289,000 to the consolidated statement of profit or loss during the Year (2014: RMB5,780,000 credited to the consolidated statement of profit or loss), which was mainly due to the utilisation of deferred income tax liabilities from fair value adjustment arising from acquisition of subsidiaries.

Financial position

Liquidity, capital resources and capital structure

As at 31 December 2015, the Group's cash and cash equivalents amounted to RMB97,612,000, representing an increase of RMB86,369,000, or 7.7 times, as compared to RMB11,243,000 as at 31 December 2014. The Group primarily utilized the cash flow from operations, cash inflow from investing activities and cash on hand to finance operational requirements during the Year.

As at 31 December 2015, the gearing ratio, being the ratio of total liabilities divided by total equity was 47.9% (31 December 2014: 52.0%). As at 31 December 2015, the Group had no bank and other borrowings (31 December 2014: Nil).

Significant investments held, material acquisitions and disposals and future plans for significant investments or capital asset acquisitions

Save as disclosed herein, during the Year, the Group had no other significant investments and neither had it entered into any material acquisitions and disposals of subsidiaries, associates or joint ventures nor made future plans for significant investments or capital asset acquisitions.

Pledge of assets

As at 31 December 2015, none of property, plant and equipment of the Group was pledged to secure bank and other borrowings (31 December 2014: Nil).

Capital commitments

As at 31 December 2015, the Group's capital commitment amounted to RMB8,595,000 (31 December 2014: RMB7,647,000), which was mainly expenditures for property developments.

Foreign exchange risk

The Group primarily operates in the PRC with RMB as its functional currency. During the Year, majority of the Group's assets, liabilities, incomes, payments and cash balances were denominated in RMB. Therefore, the Directors of the Company believed that the risk exposure of the Group to fluctuation of foreign exchange rate was not significant as a whole.

Human resources

As at 31 December 2015, the Group employed approximately 25 staff (31 December 2014: 38). Staff-related costs (including Directors' remuneration) incurred during the Year was RMB2,215,000 (2014: RMB4,514,000). The Group reviews regularly the remuneration packages of the directors and employees with respect to their experience and responsibilities to the Group's business. The Group has established a remuneration committee to determine and review the terms of remuneration packages, bonuses and other compensation payables to the Directors and senior management. In addition to basic remuneration packages and discretionary bonuses, share options may be granted based on individual performance. Details of the share option scheme are set out on pages 36 to 38 of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities/advance to an entity

As at the date of this announcement and as disclosed in the circular of the Company dated 11 December 2012 (the "**2012 Circular**"), 山東西王置業有限公司 (Shandong Xiwang Property Company Limited*) ("**Shandong Xiwang Property**"), a wholly-owned subsidiary of the Group, provided a guarantee in favour of Agricultural Development Bank of China, Zouping County Branch, in respect of the loan of an independent third party PRC company named "Zouping County State-owned Assets Investment Operation Company Limited*" (鄒平縣國有資產投資經營有限公司) with a term of 10 years from December 2011 of RMB350 million, for a guarantee period up to the end of two years after the next day following repayment of the loan in full (the "**PRC Company Guarantee**"). The PRC Company Guarantee was provided by Shandong Xiwang Property with a view to maintaining a sound relationship with the local government. Xiwang Investment has provided an indemnity to the Company and Shandong Xiwang Property against any loss arising from any claim or demand of repayment made against Shandong Xiwang Property under the PRC Company Guarantee. Further details of the PRC Company Guarantee were set out in the 2012 Circular.

III. Business Outlook

In 2016, China's real estate market will generally be dull, and the trend of diversification will continue. Improved residence and stock housing transaction will be the main targets of market competition.

In the monetary and credit aspects, the central bank will continue to maintain steady monetary policies, retain reasonable and sufficient market funds, and reduce the cost of enterprise financing and facilitate constant release of needs for real estate by guiding down actual interest rate for medium and long term via means of marketization. In the aspect of real estate policies, in the short run, the central bank maintains guidance by categorization, and encourages demands for residence, especially from new urban citizens such as rural migrant workers; in the long run, it still relies on the gradual improvement of long-term effective real estate mechanism.

Looking at the de-inventory process of residential properties in cities of different tiers, the average months of home inventory in first-tier and second-tier cities have fallen to reasonable level. Currently most inventory pressure is concentrated in third-tier and fourth-tier cities. Since most third-tier and fourth-tier cities have rapidly expanded in early stage, with significant volume of completion of residential land, they are facing problems such as overdevelopment, population outflow and insufficient effective demand, and therefore their current de-inventory pressure in the market is significant. Looking at the de-inventory

* *for identification purpose only.*

of land, the inventory pressure for medium and long term in the third-tier and fourth-tier cities is high. The third-tier and fourth-tier cities bear high inventory pressure and lack sufficient impulse for increased investment, so their trend of decline in investment is temporarily difficult to reverse. However, looking at the big picture, the inventory problem in third-tier and fourth-tier cities is due to long-term accumulation, and de-inventory cannot be solved overnight. It takes time and market adaptation for the relevant supporting incentive policies to be effective.

Since the first-tier cities have well developed economy and highly concentrated population, their real estate market maintains a good trend of development, which may drive up their prices of residential properties. Moreover, the expensive residential lands moved into market this year are all concentrated in first-tier cities, leading the newly constructed residence products to develop towards medium-end and high-end and thus pushing up the price of residential properties in the future. The diversification of residential commodity market in second-tier cities is prominent. The residential commodity inventory is gradually being cleared, and the housing prices will remain steady. The housing prices in most third-tier and fourth-tier cities are anticipated to fall. Some cities have high level of inventory due to large supply and limited demand in the early stage. Some cities with relatively gradual economic and industrial development than surrounding cities have their market demands diverted to the surrounding cities with higher absorptive capacity. The prices of newly constructed residential properties in these cities are anticipated to fall in 2016.

Looking forward to 2016, exploring multiple methods to effectively clear stock will become a focus of the real estate market. The government and enterprises should simultaneously take effective actions to clear stock in the short run as well as the medium and long run. Developments of the real estate market in different cities will be further differentiated. Some third-tier cities may face pressure of stock clearance, and their house prices may be anticipated to fall due to impact of restrictive factors such as economic and industrial development and population absorptive capacity. In contrast, the first-tier cities and some hot-spot second-tier and third-tier cities will continue to have increased demands due to their economic and industrial advantages. Their real estate market will remain a good trend of development, and the house prices will remain a trend of steady or moderate rise.

Looking forward, with supportive governmental policies, the Group is confident in the property development business in Shandong Province. For sustainability of the business, the Group will continue to look for good opportunities in the market and acquire suitable land plots for expansion in the future. We strive to maximize investment values and reap satisfactory returns.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. WANG Jin Tao (王金濤)
Chief Executive Officer

Mr. WANG Jin Tao, aged 32, is executive Director and the chief executive officer of the Company since 26 October 2015. He possess more than 10 years of management experience. He graduated from the professional course in business administration of The Open University of China(中央廣播電視大學)in January 2011 and worked as the deputy department head of the security department of the Xiwang Group, ultimate holding company of the Company between July 2005 to May 2006. He became the administrative deputy general manager of Xiwang Foodstuffs Company Limited(西王食品股份有限公司)(a company listed on the Main Board of the Shenzhen Stock Exchange under stock code 000639 in February 2010 and is effectively held as to 52.08% by the Xiwang Group) ("**Xiwang Foodstuffs**") from May 2006 to December 2006. He was appointed as the procuring deputy general manager of the Xiwang Foodstuffs from December 2006 to October 2008, the executive deputy general manager of Shandong Xiwang Biotechnology Company Limited*(山東西王生化科技有限公司) ("**Xiwang Biotechnology**") from October 2008 to August 2009, the production deputy general manager of Shandong Xiwang Sugar Company Limited*(山東西王糖業有限公司) from August 2009 to December 2009, the executive deputy general manager of the Xiwang Group First Industrial Park*(西王集團第一工業園)from December 2009 to November 2010, the factory manager of the Fourth Starch Plant of Xiwang Biotechnology (山東西王生化科技有限公司澱粉四廠)from May 2011 to August 2012, and the general manager of the Zouping County Xiwang Power Co. Ltd*(鄒平縣西王動力有限公司)from August 2012 to May 2015. Since June 2015, he has been the general manager of Shangdong Xiwang Property Company Limited*(山東西王置業有限公司)("**Shangdong Xiwang Property**"), a wholly-owned subsidiary of the Company.

Mr. WANG Wei Min (王偉民)

Mr. WANG Wei Min, aged 46, is executive Director of the Company since 26 October 2015. He joined the Group in September 1992 and has more than 22 years of experience in engineering management. He graduated from the professional course in microcomputer of the Zouping County Professional College*(鄒平縣成人中等專業學校)of Shandong Province in July 1992 and worked in the Zouping Xiwang Oil Cotton Factory*(鄒平西王油棉廠) from September 1989 to September 1992. He joined the Shandong Xiwang Property as the department head of the engineering department from September 1992 to October 2001 and became the general manager of Xiwang Real Estate Development Company Limited*(西王房地產開發有限公司), a subsidiary of Shangdong Xiwang Property from October 2001 to February 2008. Since February 2008, he has been the deputy general manager of Shangdong Xiwang Property.

Mr. CHENG Gang (程剛)

Mr. CHENG Gang, aged 43, is an executive Director since 15 July 2013. Mr. CHENG has around 17 years of experience in property development. He studied Construction and Structural Engineering Professional Course at Tsinghua University from 1997 to 2000 and was qualified as a registered national first-class constructor in 2010. During the period from 1996 to 2006, Mr. CHENG worked at Shandong Tonglian Information Industrial (Group) Company Limited* (山東通聯信息產業(集團)有限公司) as technician and was promoted from assistant engineer to manager of construction department in 2002. Mr. CHENG joined Shandong Xiwang Property as project in-charge from 2006 to 2011 and was appointed as the deputy general manager of Shandong Xiwang Property from November 2011 to April 2014. He has joined Qingdao Ouya Property Limited* (青島歐亞置業有限公司) as the general manager since April 2014.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. WANG Di (王棣)

Chairman

Mr. WANG Di, aged 32, is non-executive Director and the chairman of the Company. He was appointed as an executive Director in November 2010 and the deputy chairman of the Company in July 2012. He was the head of branding of the Group from 2006 to June 2013. Mr. WANG has been re-designated as non-executive Director and the chairman of the Company from 15 July 2013. Mr. WANG attended the bachelor's degree course of Information Conflict from the Electronic Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍電子工程學院) from 2001 to 2005. He joined Xiwang Group Company Limited* (西王集團有限公司) ("**Xiwang Group**") in August 2005 and the Group in January 2006. He was in charge of the international trading business of the Group from 2005 to June 2013 and has been in charge of international trading business of Xiwang Group for more than eight years. Mr. WANG has been granted with various awards and honours, including outstanding worker for enterprise education and training of Shandong Province in 2006, labour model of Binzhou City of Shangdong Province of the PRC, labour model of Shandong Province and outstanding entrepreneur in food industry of Shandong Province. Mr. WANG is the chairman of Xiwang Foodstuffs, and the chairman and non-executive director of Xiwang Special Steel Company Limited ("**Xiwang Special Steel**") (a company listed on the Main Board of the Stock Exchange under stock code 1266 in February 2012 and is effectively held as to 75% by Xiwang Holdings Limited ("**Xiwang Holdings**"), the ultimate holding company of the Company before 14 February 2014). Mr. WANG Di is the son of Mr. WANG Yong, who is a non-executive Director and the deputy chairman of the Company.

Mr. WANG Yong (王勇)

Deputy Chairman

Mr. WANG Yong, aged 65, is non-executive Director and the deputy chairman of the Company. He is one of the founders of the Group. Mr. WANG was appointed as executive Director and the Chairman of the Company in March 2005 and has been re-designated as non-executive Director and the deputy chairman of the Company from 15 July 2013. Mr. WANG was the legal representative of Zouping County Xiwang Social Benefits Oil and Cotton Factory* (鄒平縣西王社會福利油棉廠) from 1986 to 1992 and of Zouping County Xiwang Industrial Head Company* (鄒平縣西王實業總公司) from 1993 to 1996. He was the managing director of Xiwang Group from 1996 to 2001. Mr. WANG has been the chairman of the board of directors of Xiwang Group since 2001. Mr. WANG has been assessed by Professional Position Evaluation Committee of Binzhou Non-Public Ownership Organisations* (濱州市非公有制經濟組織專業技術職務評審委員會) as a senior economist. He was awarded as the National Labour Role Model (全國勞動模範) by the State Council in 2000 and was appointed as the vice president of the third council of China Fermentation Industry Association* (中國發酵工業協會) in 2004.

Mr. WANG was awarded with several prizes and titles, including the National Advanced Worker in Quality Management of Township Enterprise (全國鄉鎮企業質量管理先進工作者) awarded by the Ministry of Agriculture of China (中國農業部) in 2000, the Fourth National Township Entrepreneur Award (第四屆全國鄉鎮企業家) and National Advanced Worker in Technological Progress of Township Enterprise of the Eighth Five-year Plan (「八五」全國鄉鎮企業科技進步先進工作者) awarded by the Ministry of Agriculture of the PRC in 2001. Mr. WANG Yong received secondary education in the PRC. Mr. WANG has held several positions in listed companies. Mr. WANG is a director of Xiwang Foodstuffs. He is also the chairman and non-executive director of Xiwang Special Steel. Mr. WANG Yong is father of Mr. WANG Di, who is a non-executive Director and the chairman of the Company.

Mr. SUN Xinhu (孫新虎)

Mr. SUN Xinhu, aged 41, is a non-executive Director and the head of the Business Development Department of the Group. Mr. SUN joined the Group since 2003. He had over 4 years of experience in an international fast food chain in China. Mr. SUN graduated with a bachelor's degree in food science from Shandong Polytechnic University (山東輕工業學院) in July 1997, and a master's degree in food science from Southern Yangtze University (江南大學) in July 2004. Mr. SUN has been a director of Xiwang Foodstuffs since 2010 and the vice chairman of the board of Xiwang Foodstuffs since June 2014. Mr SUN was the secretary of the board of Xiwang Foodstuffs from 2010 to October 2013. Mr. SUN has been a non-executive director of Xiwang Special Steel since 2011 and was re-designated as an executive director in April 2015. Mr. SUN has been serving as vice general manager since he joined Xiwang Group in March 2003. Mr. SUN was appointed as an executive Director in December 2008 and re-designated as a non-executive Director on 5 July 2012. Mr. SUN is the spouse of Dr. LI Wei, a previous executive Director who resigned on 15 July 2013. Mr. SUN is a member of the nomination committee ("**Nomination Committee**") and the remuneration committee (the "**Remuneration Committee**") of the Company.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. WONG Kai Ming (黃啟明)

Mr. WONG Kai Ming, aged 61, is an independent non-executive Director. Mr. WONG has over 30 years of experience in accounting and finance and is presently the sole director of EMKT CPA Limited, Certified Public Accountant and the sole proprietor of Wong Kai Ming, Certified Public Accountant. Mr. WONG has obtained a higher diploma in accountancy and a bachelor of arts in accountancy degree from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in 1980 and 1996 respectively. He is a fellow member of the Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants. Mr. WONG was appointed as an independent non-executive Director in November 2005. Mr. WONG is the chairman of the audit committee of the Company (the "**Audit Committee**") and the Nomination Committee, and also a member of the Remuneration Committee.

Mr. WANG AN (王安)

Mr. WANG An, aged 69, is an independent non-executive Director. Mr. WANG has extensive experience in agriculture and knowledge in economics. He graduated from Beizhen Agricultural Professional College of Shandong Province* (山東省北鎮農業專科學校) in 1968. In 1971, he graduated from the Professional Course in Economic Statistics from the Party School of Liaoning Province* (遼寧省黨校函授經濟統計專業班) and was promoted to Senior Professor. During the period from 1968 to 1998, Mr. WANG worked at Agricultural Bureau and Forestry Bureau of Zouping County (鄒平縣農業局及林業局) and was the secretary and deputy director of the County Government Office and Director of Bureau of the Legislative Affairs (法制局), Director of the County Government Office, and communist party member of the County Government Office of Zouping County, Shandong Province, of the PRC. Before retirement in 2007, he was the secretary of the Party's Committee at the Luzhong Professional School in Shandong Province, of the PRC* (山東省魯中職業學院). Mr. WANG was appointed as an independent non-executive Director on 1 April 2013. Mr. WANG is the chairman of the Remuneration Committee and a member of the Audit Committee.

Mr. WANG Zhen (王鎮)

Mr. WANG Zhen, aged 30, is an independent non-executive Director, Mr. WANG, has over 5 years of experience in the legal field. He graduated with a bachelor degree from Weifang University* (濰坊學院) in 2009. After obtaining his professional legal qualifications in the PRC in 2009, Mr. WANG has served as a professional lawyer of Shandong Lizhi Law Office* (山東勵志律師事務所) from 2010 till present.

Senior Management

Mr. WONG Kai Hing (黃繼興)

Mr. Wong Kai Hing, aged 41, was appointed as Chief Financial Officer and Company Secretary of the Company (the "**Company Secretary**") commencing from 20 November 2015. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a member of Chartered Financial Analyst. Mr. Wong holds a Bachelor's degree in Business Administration in Professional Accountancy from the Chinese University of Hong Kong in 1997. He obtained a Master of Business Administration from the Chinese University of Hong Kong in 2006. He has over 17 years of experience in company secretary, auditing, finance and accounting fields in various listed companies and an international accounting firm in Hong Kong. Prior to joining the Company, Mr. Wong was the financial controller and company secretary of China Modern Dairy Holdings Limited from April 2012 to October 2015.

Mr. Wong was appointed as the Chief Financial Officer and the Company Secretary of Xiwang Special Steel commencing from 20 November 2015.

* *For identification purpose only*

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company is committed to maintain good corporate governance practices and procedures. The Company has adopted the code provisions contained in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. Save as disclosed herein, the Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year.

The Board is committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders.

The Board is responsible for performing the duties on corporate governance function as set out below:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance and legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the Year, the Board has reviewed the Company's corporate governance practices and the duties performed by the committees of the Board.

The Board adopted a board diversity policy (the "**Board Diversity Policy**") which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Nomination Committee is responsible for monitoring the implementation of the Board Diversity Policy and review the same as appropriate. In designing the Board's composition, the Board should have a balance of skills, experience and knowledge in the industry and diversity of perspectives appropriate to the Company's business. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The full set of the Board Diversity Policy is published on the Company's website for public information.

The Board has set objectives (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

Detailed discussion of the major corporate governance practices adopted and observed by the Company during the Year or where applicable, up to the date of this report is set out as below.

A. Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the Year and up to the date of this report.

B. Board of Directors

(i) Board composition

The Board currently comprises a combination of three executive Directors, three non-executive Directors and three independent non-executive Directors. During the Year and up to the date of this annual report, the Board consisted of the following Directors:

Executive Directors:
Mr. WANG Jin Jao *(Chief Executive Officer)* (appointed on 26 October 2015)
Mr. WANG Wei Min (appointed on 26 October 2015)
Mr. WANG Chuan Wu (resigned on 26 October 2015)
Mr. ZHOU Xiang Lin (resigned on 26 October 2015)
Mr. CHENG Gang

Non-executive Directors:
Mr. WANG Di *(Chairman)*
Mr. WANG Yong *(Deputy Chairman)*
Mr. SUN Xinhu

Independent Non-executive Directors:
Mr. WONG Kai Ming
Mr. WANG An
Mr. WANG Zhen (appointed on 23 March 2016)
Mr. YAO Yong Jun (appointed on 26 October 2015 and resigned an 23 March 2016)
Mr. WANG Shu Jie (resigned on 26 October 2015)

CORPORATE GOVERNANCE REPORT

During the Year, the Board at all times met the requirements under Rules 3.10 and 3.10 (A) of the Listing Rules that, at least one-third of members of the Board being independent non-executive directors, with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

(ii) Appointment and re-elections of directors

In accordance with the Bye-laws of the Company, the Board is authorized to appoint any person as a director of the Company either to fill a casual vacancy on the Board or, subject to authorization by the members in general meeting, as an additional member of the Board.

According to the Bye-laws of the Company, new appointments to the Board are subject to re-election by shareholders at the next following annual general meeting. Moreover, one-third of the Directors of the Board (or, the number nearest to but not less than one-third if the number of directors is not a multiple of three) shall retire from office by rotation and is eligible for re-election by shareholders at the annual general meeting. A retiring Director shall continue to act as a Director throughout the meeting at which he retires. The Board should ensure that every Director shall be subject to retirement at least once every three years.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company as a whole. One of the independent non-executive Directors, Mr. WONG Kai Ming, has over 30 years of experience in the accounting and finance fields and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Non-executive Directors are appointed for a term of three years.

The Company has received the annual written confirmations from each of Mr. WONG Kai Ming, Mr. WANG An and Mr. WANG Zhen in respect of their independence respectively pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers that all independent non-executive Directors are independent.

(iii) Responsibilities and contributions of the Board

The Board, with the assistance from the senior management, forms the core management team of the Company. The Board takes the overall responsibility for management of the Company, formulating the business strategies and development plan of the Company, decision making on important issues, including but not limited to substantial mergers and acquisitions and disposals, Directors' appointments and significant operational and financial matters, and review and approval of annual and interim results of the Company. The senior management are responsible for supervising and executing the Board policies and strategies including the provision of monthly updates of the Group's performance, position and prospects to the Board, to enable the Board and each of the Directors to deliver and discharge their duties under the Listing Rules. Daily management, administration and operation of the Company are delegated to the management team of the Company.

The Directors have timely and full access to all relevant information of the Company. The company secretary of the Company (the "**Company Secretary**") provides advice and services to the Directors to ensure the Directors follow all the Company's Board procedures and all applicable rules and regulations. Company Secretary notifies the Directors of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

(iv) Financial reporting

The Directors acknowledge their responsibility for preparing the financial statements for the Year, which give a true and fair view of the state of affairs of the Group, and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The financial statements of the Company and the Group for the Year were prepared on a going concern basis. The Audit Committee reviewed and recommended the Board to adopt the audited accounts for the Year. The Board is not aware of any material uncertainties relating to the events or condition that may undermine the Company's ability to continue as a going concern.

The statements of the external auditors of the Company with regard to their reporting responsibilities on the financial statements of the Company are set out in the Independent Auditors' Report on pages 49 to 50.

CORPORATE GOVERNANCE REPORT

(v) Relationship among members of the Board

Mr. WANG Di, the chairman and non-executive Director, is the son of Mr. WANG Yong, the deputy chairman and non-executive Director. Saved as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between any of the Directors or chief executive officer of the Company.

Each of Mr. WANG Di, and Mr. SUN Xinhu, among others, have entered into a voting agreement in respect of their shares held in Xiwang Holdings dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. Under these agreements, each of the shareholders of Xiwang Holdings shall only vote, when in the capacity of a shareholder of Xiwang Holdings, in accordance with the instruction of Mr. WANG Yong at any shareholders meeting of Xiwang Holdings.

(vi) Continuous professional development of directors

Induction seminars of comprehensive guidance on directors' duties and liabilities are provided by the Company's legal advisors to Directors once they joined the Board. Senior management of the Company provides briefings to all Directors for updates of their knowledge and skills of the industry of the Company. Company Secretary provides updates or amendments of the Listing Rules of the Stock Exchange and other statutory regulations for Directors' fulfillment of their responsibilities and duties in the Company.

During the Year, the Company provided the Directors with written materials for the updates of corporate governance practices, especially the sections related to the risk assessment, internal control and ESG Reporting. All Directors have confirmed they have studied the materials provided by the Company.

C. Chairman and Chief Executive Officer

Mr. WANG Di is the chairman of the Company who is principally responsible for formulation of plans and policies of the Group. The chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The chief executive officer of the Company is Mr. WANG Jin Tao who is responsible for the supervision for the execution of the plans and policies determined by the Board.

D. Board Committees

The Board has three board committees, namely Audit Committee, Remuneration Committee and Nomination Committee. Independent non-executive Directors are majority of members of these committees appointed by the Board. Written terms of reference of these committees based on the CG Code have been approved and adopted by the Board.

Sufficient resources are provided to the Board committees for their discharge of their duties. They are able to seek independent professional advice, at the Company's expenses, upon reasonable request and under appropriate circumstances.

(i) Audit Committee

In accordance with the written terms of reference of the Audit Committee, all members of the Audit Committee should be non-executive Directors with majority of them being independent non-executive Directors. At least one of them shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. Former partner of the Company's existing external auditors from time to time may not act as a member of the Audit Committee for a period of at least one year from the date of his ceasing (a) to be a partner of the firm or (b) to have any financial interest in the firm, whichever is later.

At present, the members of Audit Committee comprised Mr. WONG Kai Ming (chairman), Mr. WANG An and Mr. WANG Zhen.

The primary responsibilities of the Audit Committee are to monitor the integrity of the Group's financial statements and reports and review significant financial reporting judgements contained therein, exercise independent judgment in reviewing and supervising the Group's financial reporting process and internal control procedures; and system of the Group, to provide recommendations to the Board for the improvements of the Group's financial reporting system and internal control procedures and system and to provide recommendations to the Board for the appointment and removal of external auditors. The terms of reference of the Audit Committee are available on the Company's website and the website of the Stock Exchange.

Two meetings were held by the Audit Committee during the Year. During the Year, the Audit Committee reviewed the Company's internal control procedures and financial reporting system. The Audit Committee reviewed and recommended the Board to adopt the audited accounts and final results announcement for the year ended 31 December 2014 and the unaudited accounts and interim results announcement for the six months ended 30 June 2015. The Audit Committee reviewed and made recommendation to the Board for the re-appointment of external auditor. The Audit Committee also reviewed the amendments to its terms of reference.

CORPORATE GOVERNANCE REPORT

(ii) Remuneration Committee

In accordance with the written terms of reference of the Remuneration Committee, majority of members of the Remuneration Committee should be independent non-executive Directors, with the chairman must be an independent non-executive Director. The terms of reference of the Remuneration Committee are available on the Company's website and the website of the Stock Exchange.

At present, the members of Remuneration Committee comprised Mr. WANG An (chairman), Mr. WONG Kai Ming and Mr. SUN Xinhu.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the policy and structure of the Company for all Directors and senior management remuneration, and to review and recommend to the Board on the remuneration packages of individual executive Directors and senior management, by reference to the duties, responsibilities, experience and qualifications of each candidate.

One meeting was held by the Remuneration Committee during the Year. During the Year, Remuneration Committee has reviewed remuneration of senior management.

(iii) Nomination Committee

In accordance with the written terms of reference of the Nomination Committee, majority of members of the Nomination Committee should be independent non-executive Directors, with the chairman must be an independent non-executive Director. The terms of reference of the Nomination Committee are available on the Company's website and the website of the Stock Exchange.

At present, the members of the Nomination Committee comprised Mr. WONG Kai Ming (chairman), Mr. WANG Zhen and Mr. SUN Xinhu.

The primary responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspective) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy and make recommendations to the Board on the nominees for appointment as Directors and senior management of the Group, by reference to the experience and qualification of each candidate.

Nomination Committee is also responsible for monitoring the implementation of the Board Diversity Policy and review the same as appropriate.

One meeting was held by the Nomination Committee during the Year. The Nomination Committee performed annual review of the structure of the Board during the Year.

(iv) Attendance record of the Board, and Board committee meetings and general meetings

The details of Directors' attendance of the Board and board committee meetings as well as general meetings held during the Year are set out in the following table:

	No. of meetings attended/no. of meetings held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors:					
WANG Jin Tao *(Chief Executive Officer)* (appointed on 26 October 2015)	2/2	N/A	N/A	N/A	0/0
WANG Wei Min (appointed on 26 October 2015)	2/2	N/A	N/A	N/A	0/0
WANG Chuan Wu *(Chief Executive Officer)* (resigned on 26 October 2015)	3/3	N/A	N/A	N/A	0/1
ZHOU Xiang Lin (resigned on 26 October 2015)	3/3	N/A	N/A	N/A	0/1
CHENG Gang	4/4	N/A	N/A	N/A	0/1
Non-executive Directors:					
WANG Di *(Chairman)*	4/4	N/A	N/A	N/A	0/1
WANG Yong *(Deputy Chairman)*	4/4	N/A	N/A	N/A	0/1
SUN Xinhu	4/4	N/A	1/1	1/1	1/1
Independent Non-executive Directors:					
WONG Kai Ming	4/4	2/2	1/1	1/1	1/1
WANG An	4/4	2/2	1/1	N/A	0/1
YAO Yong Jun (appointed on 26 October 2015 and resigned on 23 March 2016)	1/1	0/0	N/A	0/0	0/0
WANG Shu Jie (resigned on 26 October 2015)	3/3	2/2	N/A	1/1	0/1
WANG Zhen (appointed on 23 March 2016)	N/A	N/A	N/A	N/A	N/A

CORPORATE GOVERNANCE REPORT

E. Remuneration of Senior Management

The remuneration payable to members of senior management (comprising executive Directors) of the Company by band is as follows:

	Number of senior management
Nil to RMB500,000	1
RMB500,001 to RMB1,000,000	0
	1

F. Auditors' Remuneration

A breakdown of the remuneration of the Group's external auditor is as follows:

	For the year ended 31 December 2015 (RMB'000)
Ernst & Young	
Annual audit services	1,200

G. Internal Control

All Directors acknowledge their responsibility for establishing and maintaining a sound and effective internal control system to safeguard the Group's assets and shareholders' interests, and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations.

During the Year, the Board has reviewed through the Audit Committee the effectiveness of the Group's internal control systems and financial reporting system. Relevant recommendations made by the Audit Committee would be adopted, if appropriate, as soon as possible by the Group to improve its internal control systems. There were no irregularities or material deficiencies found during the Year.

H. Company Secretary

The Company Secretary provides advice and services to the Board to ensure the Board follows all the Company's Board procedures and all applicable rules and regulations. Company Secretary notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

During the Year, Ms. NG Weng Sin resigned as the Company Secretary and Mr. WONG Kai Hing was appointed as the Company Secretary, both with effect from 20 November 2015.

Mr. WONG Kai Hing has confirmed that he has sufficient relevant professional training during the Year as required under Rule 3.29 of the Listing Rules.

I. Directors' and Officers' Liability Insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the Year.

J. Shareholders' Rights and Investor Relations

The Company's shareholders' communication policy is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors.

General meetings of the Company are formal channels for communication between shareholders and the Board. The chairmen of the Board and the Board committees are invited to attend the general meetings to have direct communication with the shareholders. External auditor of the Company should also attend annual general meetings to answer shareholders' enquires.

Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Mr. WANG An and Mr. WANG Shu Jie, independent non-executive Directors, Mr. WANG Yong, the non-executive Director, and Mr. WANG Di, the non-executive Director and Chairman of the Board, were absent from the annual general meeting of the Company held on 29 May 2015 for their overseas or other engagements.

Under the Company's bye-laws, the Bermuda Companies Act 1981 and applicable legislation and regulation, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton, Bermuda HM11 and its principal office at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong, for the attention of the Board or the Company Secretary, to require a special general meeting ("**SGM**") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

CORPORATE GOVERNANCE REPORT

The written requisition must state the purposes of the general meeting, signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders.

If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the requisition is invalid, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholder(s) concerned at a SGM varies according to the nature of the proposal, as follows:

- at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

- at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

Shareholders who have enquiries about the above procedures or have enquiries to put to the Board or have suggestions on the Company's business may write to the Company Secretary at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The Board and senior management of the Company will seriously consider shareholders' enquiries and address them accordingly and in compliance with the Listing Rules. During the Year, no shareholders' written enquiry was received.

The investor relations and corporate communication department of the Company in Hong Kong maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 3188 4518) or email (ir@xiwangproperty.com).

Shareholders and investors can also visit the Company's website at www.xiwangproperty.com and the Stock Exchange's website for the Company's announcements, circulars, financial information, corporate governance practices, annual reports, interim reports and other corporate information and updates of business development and operations.

K. Business Model and Strategy

The Group generates revenue from selling properties in the PRC. The Group will maintain flexible strategies in business development and prudent risk and capital management in order to achieve sustainable long term profitability and asset growth which in turns will maximize the shareholders' interest. The Group aims in maintaining its gearing at reasonable level and good banking relationships which enables the Group to obtain the funding for business needs and investments when opportunities arise.

The Group is optimistic about the long term economic potentials of the real estate market in China, and will focus on the development of residential projects in Shandong Province and look for development potential in other areas in China from time to time to explore new markets.

On behalf of the Board

WANG Di
Chairman

Hong Kong, 23 March 2016

DIRECTORS' REPORT

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Principal Activities

The Group is principally involved in property development.

Dividend

No final dividend was proposed by the Board for both ordinary shares and convertible preference shares in respect of the Year (2014: Nil).

Payment of the preferred annual distribution of RMB0.01 per convertible preference share will be deferred as at 31 December 2015.

Business Review

Business review of the Company and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position, and an indication of likely future development in the Company's business are set out on pages 6 to 15 of this Annual Report. An analysis of Group's performance using financial key performance indicators is provided on pages 6 to 15 of this Annual Report. These discussions form part of this Directors' report.

Principal Risks and Uncertainties

A number of factors may affect the results and business operations of the Group, some of which are inherent to fashion business and some are from external sources. Major risks are summarized below.

(i) Increased Pressure of Macro-economy Downturn

Based on the macro data of 2015 released by the National Bureau of Statistics, China's overall economy moderately slowed down in a stable trend during the reporting period. The gross domestic product for the year amounted to RMB 67.6708 trillion, representing an increase of 6.9% as compared with 2014, with the growth rate decreased by 0.5%. The national investment in real estate development amounted to RMB 9.5979 trillion, representing a nominal increase of 1.0% as compared with 2014 (and a real increase of 2.8% after deduction of price factors). The sold areas of residential housing and commodity housing both increased as compared with 2014. However, the area of new housing construction and the area of land acquired by real estate developers substantially decreased as compared with last year. The pressure of macro-economy downturn might impact the property market, causing price instability and supply-demand imbalance of commercial and residential properties, and thus causing negative impact on the business and financial conditions of the Group.

(ii) Market Risk

China's property market fluctuated in recent years and the market performance in different regions also varied greatly. It is possible that, in the future, enterprises will focus on stock clearance and undersell, thereby causing the risk of general price decrease in the property market.

(iii) Policy Risk

China's property development industry has been closely monitored and regulated by the government. Changes of state policy may affect the orientation of development of the industry. Meanwhile, property developers are required to obtain various permits, licenses, certificates and other instruments during different stages of property development, and each approval is subject to satisfaction of certain conditions. In the event of failure to obtain relevant approvals, the development plan of target property project will be affected, and the Company's business and financial condition as well as operation performance will be harmed accordingly.

Environmental Policies and Performance

This Group paid attention to nourish and enhance employees' awareness of cherishing resources and utilizing resources with high efficiency, and proactively promoted environmental protection. It urged and encouraged supervisory employees on duty to save energy and paper at work. The ultimate goal is to save resources and costs and protect the environment.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2015 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong.

Explanatory Notes to Important Relationship with Employees, Customers and Suppliers

The Group promoted people-oriented management cultures and emphasized the value of employees as it believed employees were important resources for enhancing the Company's productivity and core competency. To provide employees with competitive remunerations and opportunities to receive skill trainings is closely connected to the realization of employees' individual values as well as the Group's strategic goals.

This Group maintained good cooperation and communications with upstream builders and material suppliers, and ensured both sides were mutually benefited. The Group also paid close attention to customers' satisfaction, carefully listened to opinions of property owners and constantly enhanced service quality in order to maintain good reputation of the Company.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 12 to the consolidated financial statements.

DIRECTORS' REPORT

Share Capital

Details of movements in the Company's share capital for the Year are set out in note 20 to the consolidated financial statements.

Share Issued

During the year, a total of 900,000 ordinary shares, were issued by the Company as a result of the exercise of conversion rights relating to the same number of convertible preference shares of the Company by holders of such convertible preference shares at a conversion price of HK$1.18 per ordinary share.

Five Year 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 115.

Share Option Scheme

The Company adopted a share option scheme (the "**Scheme**") on 6 November 2005. The purpose of the Scheme is to enable the Group to grant options to selected participants as defined in Clause 4 of the Scheme as incentives or rewards for their contribution to the Group.

The principal terms of the Scheme are summarised as follows:

The maximum number of ordinary shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group must not exceed 80,000,000 ordinary shares, being 10% of ordinary shares in issue on the date of listing of the ordinary shares on the Stock Exchange (the "**Listing Date**") and approximately 6.47% of ordinary shares in issue and listed on the Stock Exchange as at the date of this report and which must not in aggregate exceed 30% of the ordinary shares in issue from time to time.

The maximum number of ordinary shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued ordinary shares from time to time.

The subscription price for the ordinary shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the ordinary share as stated in the Stock Exchange's daily quotations sheet on the date of the Board approving the grant of an option, which must be a business day (the "**Offer Date**"); (ii) the average closing price of the ordinary share as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the ordinary share.

An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme (the "**Commencement Date**") and expiring on such date of the expiry of the option as the Board may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

Upon acceptance of the option, the grantee shall pay HKD1.00 to the Company as consideration for the grant.

The Scheme shall be valid and effective for a period of ten years commencing on 6 November 2005 i.e. the date of adoption of the Scheme. Accordingly, the Scheme had been expired on 5 November 2015 and no further options would be granted under the Scheme, but options granted prior to its expiration shall continue to be valid and exercisable in accordance with the provisions of the Scheme.

As at 31 December 2015, options to subscribe for 6,400,000 ordinary shares of the Company were outstanding, details of which are set out in note 21 to the consolidated financial statements and below:

		During the year ended 31 December 2015			Outstanding	Outstanding		
Class of grantee	Date of grant	Granted	Exercised	Lapsed	Outstanding as at 1 January 2015	Outstanding as at 31 December 2015	Exercise price per Share *(HK$)*	Exercise period
Directors								
WANG Di	5 November 2013	–	–	–	3,000,000	3,000,000	1.112	*(Note 2,3)*
SUN Xinhu	5 November 2013	–	–	–	3,000,000	3,000,000	1.112	*(Note 2,3)*
Employees								
(Note 1)	5 November 2013	–	–	–	400,000	400,000	1.112	*(Note 2,3)*
		–	–	–	6,400,000	6,400,000		

DIRECTORS' REPORT

Notes:

1. Employees include employees of the Group (other than the directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

2. The closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on 4 November 2013, being the trading day immediately preceding the date of grant of options was HKD1.10 per share.

3. These options can only be exercised by the grantee in the following manner:

Commencing from	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
5 November 2014	2,100,000
5 November 2015	2,100,000
5 November 2016	2,200,000

Equity-linked Agreements

Other than the Scheme as disclosed above, no equity-linked agreements were entered into by the Company, or existed during the year.

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Year.

Reserves

Details of movements in the reserves of the Company during the Year are set out in note 28 to the consolidated financial statements and in the consolidated statement of changes in equity.

As the 31 December 2015, the reserves available for distribution to shareholders of the Company was approximately RMB438,834,000 (31 December 2014: RMB444,399,000).

Major Customers and Suppliers

For the Year, purchases from the largest supplier of the Group accounted for approximately 38.0% of the Group's total purchase and purchases from the Group's five largest suppliers accounted for approximately 69.0% of the Group's total purchase.

For the Year, the Group's five largest customers accounted for approximately 5.7% of the Group's total revenue.

Save as disclosed in note 26 to the consolidated financial statements and save as disclosed above, none of the Directors or any of their close associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest suppliers and five largest customers of the Group during the Year.

Directors and Directors' Service Contracts

The Directors during the Year and up to the date of this report were:

Executive Directors:

Mr. WANG Jin Tao *(Chief Executive Officer)* (appointed on 26 October 2015)
Mr. WANG Wei Min (appointed on 26 October 2015)
Mr. WANG Chuan Wu *(Chief Executive Officer)* (resigned on 26 October 2015)
Mr. ZHOU Xiang Lin (resigned on 26 October 2015)
Mr. CHENG Gang

DIRECTORS' REPORT

Non-executive Directors:
Mr. WANG Di *(Chairman)*
Mr. WANG Yong *(Deputy Chairman)*
Mr. SUN Xinhu

Independent Non-executive Directors:
Mr. WONG Kai Ming
Mr. WANG An
Mr. WANG Zhen (appointed on 23 March 2016)
Mr. YAO Yong Jun (appointed on 26 October 2015 and resigned on 23 March 2016)
Mr. WANG Shu Jie (resigned on 26 October 2015)

Pursuant to Bye-law 87(1) of the Bye-laws of the Company, each of Mr. CHENG Gang and Mr. WONG Kai Ming shall retire from office at the forecoming annual general meeting and, being eligible, will offer himself for re-election.

None of the Directors has a 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.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all the independent non-executive Directors to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 16 to 21 of this annual report.

Directors' Interests in Contracts of Significance

Save as disclosed in note 26 to the consolidated financial statements, no transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party in which a Director or an entity connected with a Director had a material interest, either directly or indirectly, in any subsisted at the end of the Year or at any time during the Year.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries or the holding company or a subsidiary of the Company's holding company a party to any arrangements to enable the Directors to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

Permitted Indemnity Provision

The Company has taken out liability insurance to indemnify its Directors for their liabilities arising from the performance of their duties.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year ended 31 December 2015.

DIRECTORS' REPORT

Directors' Interests in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested *(Note 1)*	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2015
WANG Yong	Company	Interest of controlled corporations *(Note 2)*	810,903,622 ordinary shares (L) *(Note 4)*	65.62%
			678,340,635 convertible preference shares (L) *(Note 4)*	99.68%
	Xiwang Investment Company Limited ("**Xiwang Investment**")	Interest of controlled corporations *(Note 2)*	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner *(Note 2)*	6,738 shares (L)	3.37%
		Interest of controlled corporations *(Note 2)*	190,000 shares (L)	95%
	Xiwang Hong Kong Company Limited ("**Xiwang Hong Kong**")	Interest of controlled corporations *(Note 2)*	694,132,000 shares (L)	100%

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested *(Note 1)*	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2015
	Xiwang Group	Beneficial owner *(Note 2)*	RMB1,322,730,084 (L)	66.14%
	Xiwang Special Steel	Interest of controlled corporations *(Note 2)*	1,500,000,000 shares (L) *(Note 3)*	74.75%
WANG Di	Company	Beneficial owner	3,000,000 ordinary shares (L) *(Note 5)*	0.24%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,400,000 (L)	1.77%
	Xiwang Special Steel	Beneficial owner	6,000,000 shares (L)	0.30%
SUN Xinhu	Company	Beneficial owner	3,000,000 ordinary shares (L) *(Note 5)*	0.24%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB17,800,000 (L)	0.89%
	Xiwang Special Steel	Beneficial owner	1,400,000 shares (L)	0.07%

DIRECTORS' REPORT

Notes:

(1) The letter "L" represents the Director's interests in the shares.

(2) As at 31 December 2015, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 66.14% by Mr. WANG Yong and remaining 33.86% by 23 individuals. Further, these 23 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 23 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in all the shares of the Company in which Xiwang Group is interested.

Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings. Therefore, Xiwang Holdings, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(3) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all the shares of Xiwang Special Steel held by Xiwang Investment.

(4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all shares held by Xiwang Investment.

(5) These interests represent the Directors' beneficial interests in the underlying shares in respect of the share options granted by the Company to the Directors. Details of which are set out in the section headed "Share Option Scheme".

Substantial Shareholders and Other Persons who are Required to Disclose their Interests pursuant to Part XV of the SFO

(a) Substantial shareholders of the Company

As at 31 December 2015, so far as it is known to any Directors of the Company, the following shareholders (other than the Directors and chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company are set out above) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held *(Note 1)*	Approximate percentage of interest as at 31 December 2015
Xiwang Investment	Beneficial owner	810,903,622 ordinary shares (L)	65.62%
		678,340,635 convertible preference shares (L)	99.68%
Xiwang Holdings	Interest of a controlled corporation *(Note 2)*	810,903,622 ordinary shares (L)	65.62%
		678,340,635 convertible preference shares (L)	99.68%
Xiwang Hong Kong	Interest of controlled corporations *(Notes 2, 3)*	810,903,622 ordinary shares (L)	65.62%
		678,340,635 convertible preference shares (L)	99.68%

DIRECTORS' REPORT

Name of substantial shareholder	Capacity	Number of shares of the Company held *(Note 1)*	Approximate percentage of interest as at 31 December 2015
Xiwang Group	Interest of controlled corporations *(Notes 2, 3)*	810,903,622 ordinary shares (L)	65.62%
		678,340,635 convertible preference shares (L)	99.68%
ZHANG Shufang	Interest of spouse *(Note 4)*	810,903,622 ordinary shares (L)	65.62%
		678,340,635 convertible preference shares (L)	99.68%

Notes:

(1) The letter "L" represents the entity's interests in the shares.

(2) Xiwang Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(3) Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

(4) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares in which Mr. WANG Yong is deemed to be interested.

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed "Directors' Interests in shares, underlying shares and debentures of the Company and its associated corporations" and paragraph (a) above, as at 31 December 2015, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Connected Transactions

Related Party Transactions

Details of the related party transactions undertaken by the Group during the Year are set out in note 26 to the financial statements. The Company has complied with the applicable requirements under the Listing Rules for those related party transactions which constituted non-exempt connected transactions/continuing connected transactions. Other related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

Corporate governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 22 to 33 of this annual report.

Audit Committee

The Company established an Audit Committee with written terms of reference based upon the provisions and recommended practices of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures and system of the Group. During the Year, members of the Audit Committee comprised Mr. WONG Kai Ming (chairman), Mr. WANG An, Mr. WANG Shu Jie (resigned on 26 October 2015) and Mr. YAO Yong Jun (appointed on 26 October 2015 and resigned on 23 March 2016), being the independent non-executive Directors.

The Group's consolidated financial statements for the Year have been reviewed by the Audit Committee, which is of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

DIRECTORS' REPORT

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float not less than 25% of the total issued share capital as at the date of this report.

Auditors

Ernst & Young has retired and, is eligible to, offer themselves for re-appointment. A resolution will be proposed at the upcoming annual general meeting of the Company to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board

WANG Di

Chairman

Hong Kong, 23 March 2016

INDEPENDENT AUDITORS' REPORT

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

To the shareholders of Xiwang Property Holdings Company Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Xiwang Property Holdings Company Limited (the "**Company**") and its subsidiaries set out on pages 51 to 114, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

INDEPENDENT AUDITORS' REPORT

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

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

23 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	**100,783**	122,122
Cost of sales		**(109,654)**	(176,855)
Gross loss		**(8,871)**	(54,733)
Other income	5	**704**	908
Other expenses		**(4,732)**	(1,771)
Selling and marketing expenses		**(291)**	(3,440)
Administrative expenses		**(7,245)**	(28,721)
LOSS BEFORE TAX	6	**(20,435)**	(87,757)
Income tax credit	9	**5,289**	5,780
LOSS FOR THE YEAR		**(15,146)**	(81,977)
Attributable to:			
Owners of the parent		**(15,086)**	(80,950)
Non-controlling interests		**(60)**	(1,027)
		(15,146)	(81,977)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic and diluted			
– For loss for the year		**RMB(1) cents**	RMB(7) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015	**2015** **RMB'000**	2014 RMB'000
LOSS FOR THE YEAR	**(15,146)**	(81,977)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,699**	618
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(12,447)**	(81,359)
Attributable to:		
Owners of the parent	**(12,387)**	(80,332)
Non-controlling interests	**(60)**	(1,027)
	(12,447)	(81,359)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**226**	1,355
Goodwill	13	**180,405**	180,405
Long-term prepayment	14	**54,585**	54,585
Total non-current assets		**235,216**	236,345
CURRENT ASSETS			
Completed properties held for sale		**104,831**	202,502
Properties under development	15	**300,418**	297,358
Trade and other receivables	16	**140,460**	172,865
Restricted cash	17	**–**	1,875
Cash and cash equivalents	17	**97,612**	11,243
Total current assets		**643,321**	685,843
CURRENT LIABILITIES			
Trade and other payables	18	**127,353**	206,586
Due to related parties	26	**58,948**	4,445
Total current liabilities		**186,301**	211,031
NET CURRENT ASSETS		**457,020**	474,812
TOTAL ASSETS LESS CURRENT LIABILITIES		**692,236**	711,157

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015	Notes	**31 December 2015 RMB'000**	31 December 2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**692,236**	711,157
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**98,236**	104,320
Total non-current liabilities		**98,236**	104,320
Net assets		**594,000**	606,837
EQUITY			
Equity attributable to owners of the parent			
Share capital	20	**175,672**	175,672
Reserves	22	**418,328**	430,316
		594,000	605,988
Non-controlling interests		**–**	849
Total equity		**594,000**	606,837

WANG Di
Director

WANG Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the parent										
Year ended 31 December 2015	Note	Share capital RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Contributed surplus RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		175,672	941	102,910	52,738	373,006	(118,063)	(4,163)	103,157	686,198	1,876	688,074
Loss for the year		–	–	–	–	–	–	–	(80,950)	(80,950)	(1,027)	(81,977)
Other comprehensive income for the year		–	–	–	–	–	–	618	–	618	–	618
Total comprehensive loss for the year		–	–	–	–	–	–	618	(80,950)	(80,332)	(1,027)	(81,359)
Equity-settled share option arrangement	21	–	122	–	–	–	–	–	–	122	–	122
Transfer of share option reserve upon the expiry of share options		–	(382)	–	–	–	–	–	382	–	–	–
At 31 December 2014		175,672	681*	102,910*	52,738*	373,006*	(118,063)*	(3,545)*	22,589*	605,988	849	606,837

		Attributable to owners of the parent										
Year ended 31 December 2015	Note	Share capital RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Contributed surplus RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015		175,672	681*	102,910*	52,738*	373,006*	(118,063)*	(3,545)*	22,589*	605,988	849	606,837
Loss for the year		–	–	–	–	–	–	–	(15,086)	(15,086)	(60)	(15,146)
Other comprehensive income for the year		–	–	–	–	–	–	2,699	–	2,699	–	2,699
Total comprehensive loss for the year		–	–	–	–	–	–	2,699	(15,086)	(12,387)	(60)	(12,447)
Equity-settled share option arrangement	21	–	399	–	–	–	–	–	–	399	–	399
Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	(789)	(789)
At 31 December 2015		175,672	1,080*	102,910*	52,738*	373,006*	(118,063)*	(846)*	7,503*	594,000	–	594,000

* These reserve accounts comprise the consolidated other reserves of RMB418,328,000 (2014: RMB430,316,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(20,435)**	(87,757)
Adjustments for:			
Interest income		**(28)**	(908)
Depreciation	12	**259**	632
Loss on disposal of items of property, plant and equipment		**394**	–
Gain on decrease in non-controlling interests		**(790)**	–
Write-off of long-term prepayment	6	**–**	18,459
Write-down of completed properties held for sale to net realisable value	6	**5,210**	40,644
Reversal of write-down of completed properties held for sale to net realisable value	6	**(32,384)**	–
Impairment of trade receivables	6	**–**	340
Equity-settled share option expense		**398**	122
		(47,376)	(28,468)
Decrease/(increase) in properties under development		**(3,060)**	135,206
Decrease/(increase) in completed properties for sale		**124,845**	(122,848)
Increase in long-term prepayment		**–**	(2,951)
Decrease/(increase) in trade and other receivables		**32,405**	(47,374)
Decrease in trade and other payables		**(80,027)**	(44,311)
Increase in amounts due to related parties		**54,531**	2,361
Decrease in restricted cash		**1,875**	493
Cash generated from/(used in) operations		**83,193**	(107,892)
Mainland China taxes paid		**–**	(10,305)
Net cash flows used in operating activities		**83,193**	(118,197)

Year ended 31 December 2015	Note	2015 RMB'000	2014 RMB'000
Net cash flows used in operating activities		**83,193**	(118,197)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**–**	2,338
Receipt of promissory note receivable		**–**	117,945
Purchases of items of items of property, plant and equipment		**–**	(130)
Proceeds from disposal of property, plant and equipment		**476**	–
Net cash flows from investing activities		**476**	120,153
NET INCREASE IN CASH AND CASH EQUIVALENTS		**83,669**	1,956
Cash and cash equivalents at beginning of year		**11,243**	8,669
Effect of foreign exchange rate changes, net		**2,700**	618
CASH AND CASH EQUIVALENTS AT END OF YEAR		**97,612**	11,243
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of cash flows	17	**97,612**	11,243

NOTES TO FINANCIAL STATEMENTS

1. Corporate and Group Information

Xiwang Property Holdings Company Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon house, 2 Church Street, Hamilton HM11, Bermuda.

The Company and its subsidiaries (collectively referred to as the "**Group**") were principally involved in property development.

In the opinion of the directors, the immediate holding company of the Company is Xiwang Investment Company Limited ("**Xiwang Investment**"), which is a private company incorporated in the British Virgin Islands (the "**BVI**"). The ultimate holding company of the Company is Xiwang Holdings Limited ("**Xiwang Holdings**"), which is incorporated in the BVI, before 14 February 2014 and Xiwang Group Company Limited ("**Xiwang Group**"), which is established in the People's Republic of China (the "**PRC**"), after 14 February 2014.

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

Name	Place of Incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Keen Lofty Investments Limited	British Virgin Islands	US$15,756,000	100	–	Investment holding
Glorious Prosper Limited	Hong Kong	HK$1	–	100	Investment holding
Shandong Xiwang Agricultural Development Company Limited (山東西王農業文化發展有限公司)#	PRC/Mainland China	US$63,127,200	–	100	Property investment and development
Shandong Xiwang Investment Holdings Company Limited (山東西王投資控股有限公司)	PRC/Mainland China	RMB20,000,000	–	100	Investment holding
Shandong Xiwang Property Company Limited (山東西王置業有限公司)	PRC/Mainland China	RMB200,000,000	–	100	Property investment and development

Established in the PRC as a wholly-foreign-owned enterprise

Binzhou Xiwang Metropolitan Company Limited and Qingdao Xiwang Property Company Limited were deregistered in 2015.

2.1 Basis of Preparation

The Company's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

NOTES TO FINANCIAL STATEMENTS

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

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

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

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

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of the revised standards has no impact on the Group.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

Amendments to HKAS 1	*Disclosure Initiative*[2]
HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying Consolidation Exception*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of HKFRSs*[1]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of HKFRSs*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*[1]
Amendments to IAS 7	*Disclosure Initiative*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]
Amendments to IFRS 16	*Leases*[5]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

4 Effective for annual periods beginning on or after 1 January 2017

5 Effective for annual periods beginning on or after 1 January 2019

NOTES TO FINANCIAL STATEMENTS

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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

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

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

Business combinations of entities under common control

Business combinations of entities under common control are accounted for using the pooling of interests method. Under the pooling of interests method, the assets and liabilities of the combining entities are reflected at their existing carrying values at the date of combination. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of common control combination, which is instead recorded as part of equity.

Impairment of non-financial assets

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

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

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

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

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

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

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

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

(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 the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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

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

Buildings	2.25%
Plant and machinery	6.3%
Equipment and motor vehicles	9.5%-31.7%

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement of loans and receivables

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

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade and other payables, and amounts due to related parties.

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement of loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 Summary of Significant Accounting Policies (continued)

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development costs of property comprise cost of land use rights, construction costs, and professional fees incurred during the development period. On completion, the properties are transferred to completed properties for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction of the relevant property development project is expected to complete beyond normal operating cycle.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Cash and cash equivalents

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

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax

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

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

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

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

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

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

Revenue recognition

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

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

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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

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

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 21 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 Summary of Significant Accounting Policies (continued)

Share-based payments (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

Other employee benefits

Pension schemes

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

Each of the Group's subsidiaries operating in Mainland China participates in the central pension scheme (the "**CPS**") operated by the local municipal government for all of its staff in Mainland China. These subsidiaries are required to contribute a percentage of their payroll costs to the CPS. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the CPS.

NOTES TO FINANCIAL STATEMENTS

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on the settlement or transaction of monetary items are recognised in the statement of profit or loss.

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

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income tax

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is sufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses carried forward, and that the asset balance will be reduced and charged to the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Land appreciation tax

Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the Provisional Regulations of the Public on 27 January 1995, all gains arising from the transfer of real estate properties in Mainland China with effect from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

The subsidiaries of the Group engaging in the property development business in Mainland China are subject to LAT, which has been included in income tax. However, the implementation of these taxes varies amongst various Mainland China cities and the Group has not finalised its LAT returns with various tax authorities. 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. When the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the income tax and provisions for land appreciation taxes in the period in which the determination is made.

Estimation uncertainty

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

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation may be made if the estimated useful lives and/or the residual values of items of the property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB180,405,000 (2014: RMB180,405,000). Further details are given in note 13.

Impairment of non-financial assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

4. OPERATING SEGMENT INFORMATION

Information reported to the Group's management for the purpose of resources allocation and performance assessment, focuses on the operating results of the property development business which is the sole operating segment of the Group. Accordingly, no operating segment information is presented.

Geographical information

All revenues are from Mainland China.

Non-current assets

	2015	2014
	RMB'000	RMB'000
Mainland China	**54,713**	55,716
Hong Kong	**98**	224
	54,811	55,940

The non-current asset information above is based on the locations of the assets and excludes goodwill.

5. REVENUE AND OTHER INCOME

Revenue represents proceeds from the sale of properties.

An analysis of revenue and other income is as follows:

	2015	2014
	RMB'000	RMB'000
Revenue		
Sale of properties	**100,783**	122,122
Other income		
Bank interest income	**28**	15
Interest income from promissory note receivable	**–**	893
Others	**676**	–
	704	908

6. LOSS BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Cost of inventories sold	**136,828**	136,211
Auditors' remuneration	**1,200**	1,250
Depreciation	**259**	632
Minimum lease payments under operating leases:		
Land and buildings	**587**	582
Employee benefit expense (including directors' and chief executive's remuneration, note 7):		
Wages and salaries	**1,636**	4,128
Equity-settled share option expense	**399**	122
Pension scheme contributions	**180**	264
	2,215	4,514
Foreign exchange differences, net*	**4,732**	1,771
Write-off of long-term prepayment**	**–**	18,459
Impairment of trade receivables**	**–**	340
Write-down of completed properties held for sale to net realisable value ***	**5,210**	40,644
Reversal of write-down of completed properties held for sale to net realisable value ****	**(32,384)**	–

* The foreign exchange differences, net are included in "Other expenses" in the consolidated statement of profit or loss.

** The write-off of long-term prepayment and the impairment of trade receivables are included in "Administrative expenses" in the consolidated statement of profit or loss.

*** The write-down of completed properties held for sale to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.

**** The reversal of write-down of completed properties held for sale to net realisable value along with the properties sold is included in "Cost of sales" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2015	2014
	RMB'000	RMB'000
Fees	**220**	218
Other emoluments:		
Salaries, allowances and benefits in kind	**300**	128
Equity-settled share option expense	**376**	406
Pension scheme contributions	**17**	7
	693	541
	913	759

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees	Equity-settled share option expense	Total
	RMB'000	RMB'000	RMB'000
2015			
Mr. YAO Yong Jun*	**8**	**–**	**8**
Mr. WONG Kai Ming	**122**	**–**	**122**
Mr. WANG An	**50**	**–**	**50**
Mr. WANG Shu Jie*	**40**	**–**	**40**
	220	**–**	**220**
2014			
Mr. WONG Kai Ming	118	–	118
Mr. WANG An	50	–	50
Mr. WANG Shu Jie	50	–	50
	218	–	218

* Mr. WANG Shu Jie resigned in October 2015, and Mr. YAO Yong Jun has been appointed as independent non-executive director in October 2015.

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

NOTES TO FINANCIAL STATEMENTS

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2015					
Executive directors:					
Mr. WANG Jin Tao	–	222	–	7	229
Mr. WANG Wei Min	–	78	–	10	88
Mr. CHENG Gang	–	–	–	–	–
Mr. WANG Chuan Wu*	–	–	–	–	–
Mr. ZHOU Xiang Lin*	–	–	–	–	–
	–	300	–	17	317
Non-executive directors:					
Mr. WANG Yong	–	–	–	–	–
Mr. WANG Di	–	–	188	–	188
Mr. SUN Xinhu	–	–	188	–	188
	–	–	376	–	376

* Each of Mr. WANG Chuan Wu and Mr. ZHOU Xiang Lin resigned on 26 October 2015.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive Directors and Non-executive Directors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2014					
Executive directors:					
Mr. WANG Chuan Wu	–	–	–	–	–
Mr. ZHOU Xiang Lin	–	112	–	5	117
Mr. CHENG Gang	–	16	–	2	18
	–	128	–	7	135
Non-executive directors:					
Mr. WANG Yong	–	–	–	–	–
Mr. WANG Di	–	–	203	–	203
Mr. SUN Xinhu	–	–	203	–	203
	–	–	406	–	406

Three (2014: Three executive directors) executive directors waived remuneration amounting to RMB805,000 in aggregate during 2015 (2014: RMB749,000).

NOTES TO FINANCIAL STATEMENTS

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors and the chief executive (2014: four directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining two (2014: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015	2014
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**400**	476
Equity-settled share option expense*	**23**	(153)
Pension scheme contributions	**16**	7
	439	330

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

	Number of employees	
	2015	2014
Nil to RMB1,000,000	**2**	1
RMB1,000,001 to RMB1,500,000	**–**	–
	2	1

* The amount of equity-settled share option expense for 2014 represents the reversal of option expenses of senior management (LAM Wai Lin), who was resigned in July, 2014 and the option was forfeited accordingly.

9. INCOME TAX CREDIT

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year (2014: Nil).

Pursuant to the PRC Corporate Income Tax ("**CIT**"), all PRC enterprises are subject to a standard enterprise income tax rate of 25%, except for enterprises under specific preferential policies and provisions. In 2015, the applicable tax rate for the subsidiaries of the Company established in the PRC was 25% (2014: 25%).

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights and all property development expenditures. LAT of RMB1,794,000 is credited (2014: RMB2,668,000 charged) to the consolidated statement of profit or loss for the year ended 31 December 2015.

	2015 **RMB'000**	2014 RMB'000
Group:		
Current – Mainland China	**–**	–
LAT (credit)/charge in Mainland China	**(1,794)**	2,668
Deferred Mainland China corporate income tax	**(3,495)**	(8,448)
Total tax credit for the year	**(5,289)**	(5,780)

NOTES TO FINANCIAL STATEMENTS

9. INCOME TAX CREDIT (continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory income tax rate to the tax expense at the Group's effective income tax rate for the year, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2015		2014	
	RMB'000	**%**	RMB'000	%
Loss before tax	**(20,435)**		(87,757)	
Tax at the statutory tax rate	**(5,109)**	**25**	(21,939)	25
Lower statutory tax rates for Hong Kong subsidiaries	**433**	**(2.1)**	405	(0.5)
Tax losses and deductible temporary differences not recognised	**6,087**	**(29.8)**	8,077	(9.2)
Benefit arising from previously unrecognised temporary difference	**(4,940)**	**24.2**	–	–
Expenses not deductible for tax	**1,418**	**(6.9)**	5,986	(6.8)
LAT	**(1,794)**	**8.8**	2,668	(3.0)
Tax effect of LAT and business tax	**(1,384)**	**6.8**	(977)	1.1
Tax credit at the Group's effective rate	**(5,289)**	**26**	(5,780)	6.6

10. DIVIDENDS

No final dividend was proposed by the board of directors for both ordinary shares and convertible preference shares for the year ended 31 December 2015 (2014: Nil).

Payment of the preferred annual distribution of RMB0.01 per convertible preference share will be deferred as at 31 December 2015.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,236,677,333 (2014: 1,235,777,333) in issue during the year.

The calculation of the diluted loss per share amount for the year ended 31 December 2015 is based on the loss for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as the impact of convertible preference shares outstanding and share options would not have a dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted loss per share amounts are based on:

	2015	2014
	RMB'000	RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent	**(15,086)**	(80,950)

	Number of shares	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations	**1,236,677,333**	1,235,777,333

NOTES TO FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Equipment and motor vehicles RMB'000
31 December 2015	
At 31 December 2014 and at 1 January 2015:	
Cost	**3,833**
Accumulated depreciation	**(2,478)**
Net carrying amount	**1,355**
At 1 January 2015, net of accumulated depreciation and impairment	**1,355**
Disposals	**(870)**
Depreciation provided during the year	**(259)**
At 31 December 2015, net of accumulated depreciation and impairment	**226**
At 31 December 2015:	
Cost	**2,963**
Accumulated depreciation	**(2,737)**
Net carrying amount	**226**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Equipment and motor vehicles RMB'000
31 December 2014	
At 31 December 2013 and at 1 January 2014:	
Cost	3,703
Accumulated depreciation	(1,846)
Net carrying amount	1,857
At 1 January 2014, net of accumulated depreciation and impairment	1,857
Additions	130
Depreciation provided during the year	(632)
At 31 December 2014, net of accumulated depreciation and impairment	1,355
At 31 December 2014:	
Cost	3,833
Accumulated depreciation	(2,478)
Net carrying amount	1,355

As at 31 December 2015, none of property, plant and equipment of the Group was pledged to secure bank and other borrowings (2014: Nil).

NOTES TO FINANCIAL STATEMENTS

13. GOODWILL

	RMB'000
At 1 January 2014 and 31 December 2014:	
Cost	180,405
Accumulated impairment	–
Net carrying amount	180,405
Cost at 1 January 2015, net of accumulated impairment	180,405
Impairment during the year	–
Cost and net carrying amount at 31 December 2015	180,405
At 31 December 2015:	
Cost	180,405
Accumulated impairment	–
Net carrying amount	180,405

Goodwill acquired through business combinations has been allocated to the following cash-generating units ("CGUs") for impairment testing:

	2015	2014
	RMB'000	RMB'000
Meijun Project Phase Three	**107,420**	114,744
Qinghe Project	**72,985**	65,661
	180,405	180,405

13. GOODWILL (continued)

The recoverable amount of all the above CGUs has been determined based on a value in use calculation using cash flow projections based on financial budgets covering three to five-year periods approved by the senior management. The discount rates applied to the cash flow projections range from 16% to 18% (2014: 16% to 18%).

The key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill are as follows:

The selling price of properties is forecasted based on the current selling price of similar properties in the same location with no expected growth.

The construction cost of properties is based on the actual cost of similar properties in the same location considering the factors such as the increase of labour cost and inflation.

Pre-sale is expected to take place in 2018 both for Qinghe Project and Meijun Project Phase Three.

Plot ratio is calculated by the total gross floor area dividing the land area and estimated based on the project design.

	Plot ratio	
	2015	2014
Meijun Project Phase Three	**3.06**	3.06
Qinghe Project	**2.2**	2.2

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

In the opinion of the directors, a delay in construction of Meijun Project Phase Three by one year would cause the carrying amount of the CGU to exceed its recoverable amount by approximately RMB6,367,000.

In the opinion of the directors, a decrease in the selling price of Qinghe Project by 5% or a delay in construction of Qinghe Project by one year would cause the carrying amount of the CGU to exceed its recoverable amount by approximately RMB17,987,000 and RMB28,912,000, respectively.

14. LONG-TERM PREPAYMENT

Long-term prepayment as at 31 December 2015 mainly represented a prepayment of RMB54,585,000 (2014: RMB54,585,000) related to the acquisition of land use rights.

NOTES TO FINANCIAL STATEMENTS

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2015	2014
	RMB'000	RMB'000
Land in Mainland China held at cost:		
At 1 January	**291,983**	380,820
Transfer to completed properties held for sale	**–**	(88,837)
At 31 December	**291,983**	291,983
Development expenditure, at cost:		
At 1 January	**5,375**	51,744
Additions	**3,060**	116,123
Transfer to completed properties held for sale	**–**	(162,492)
At 31 December	**8,435**	5,375
	300,418	297,358
Properties under development expected to be recovered:		
Within one year	**–**	–
After one year	**300,418**	297,358
	300,418	297,358

16. TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Trade receivables	**–**	–
Prepayments	**123,785**	131,431
Prepaid tax	**12,455**	18,349
Other receivables	**4,220**	23,085
	140,460	172,865

16. TRADE AND OTHER RECEIVABLES (continued)

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Trade receivables

	2015 **RMB'000**	2014 RMB'000
Trade receivables	–	340
Impairment	–	(340)
	–	–

Included in the above provision for impairment of trade receivable is a provision for individually impaired trade receivable of RMB340,000 for 2014 with a carrying amount before provision of RMB340,000.

The individually impaired trade receivables relate to customers that were in default in payment and not expected to be recovered.

The movement in provision for impairment of trade receivables is as follows:

	2015 **RMB'000**	2014 RMB'000
At 1 January	–	–
Impairment losses recognised (note 6)	–	340
	–	340

NOTES TO FINANCIAL STATEMENTS

17. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2015	2014
	RMB'000	RMB'000
Cash and bank balances	**97,612**	13,118
Less: Restricted cash*	**–**	(1,875)
Cash and cash equivalents	**97,612**	11,243

* In accordance with the relevant documents issued by the PRC State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place in designated bank accounts a certain amount of presale proceeds of properties as guarantee deposits for the construction of related properties. The deposits can only be used for purchases of construction materials and the payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resource Bureau is obtained. These guarantee deposits will only be released after the completion of the related pre-sold properties.

At the end of the reporting period, the cash and cash equivalents of the Company's subsidiaries in Mainland China denominated in RMB amounted to RMB94,606,000 (2014: RMB7,341,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	RMB'000
Trade payables	**30,529**	36,430
Deposits received	**9,869**	18,410
Receipts in advance	**79,110**	140,511
Other payables	**5,415**	8,864
Accruals	**1,400**	1,250
Salary and welfare payables	**1,030**	1,121
	127,353	206,586

Trade payables

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

	2015	2014
	RMB'000	RMB'000
0 – 30 days	**26**	30,758
31 – 60 days	**3**	3,650
61 – 90 days	**28**	–
Over 90 days	**30,472**	2,022
	30,529	36,430

The trade payables are non-interest-bearing and are normally settled on terms of one year.

Other payables are non-interest-bearing and payable on demand.

NOTES TO FINANCIAL STATEMENTS

19. DEFERRED TAX

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

Deferred tax liabilities:

	2015			
	LAT from sales of properties RMB'000	**Fair value adjustment arising from acquisition of subsidiaries RMB'000**	**Prepaid tax for advance proceeds from properties RMB'000**	**Total RMB'000**
At 1 January 2015	**43,105**	**58,756**	**2,459**	**104,320**
Deferred tax credited to the consolidated statement of profit or loss during the year	**(2,589)**	**(2,111)**	**(1,384)**	**(6,084)**
Gross deferred tax liabilities at 31 December 2015	**40,516**	**56,645**	**1,075**	**98,236**

	2014			
	LAT from sales of properties RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Prepaid tax from advance proceeds from properties RMB'000	Total RMB'000
At 1 January 2014	45,617	66,226	3,437	115,280
Deferred tax credited to the consolidated statement of profit or loss during the year	(2,512)	(7,470)	(978)	(10,960)
Gross deferred tax liabilities at 31 December 2014	43,105	58,756	2,459	104,320

19. DEFERRED TAX (continued)

Deferred tax assets:

No deferred tax assets have been recognised as at 31 December 2015 and 2014.

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

	2015	2014
	RMB'000	RMB'000
Tax losses	**149,853**	118,445
Deductible temporary differences	**–**	27,470
	149,853	145,915

The Group has tax losses of RMB126,816,000 (2014: RMB108,824,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group has tax losses arising in Mainland China of RMB23,037,000 (2014: RMB9,621,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2014, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB187,000 at 31 December 2014. At 31 December 2015, the Group's subsidiaries established in Mainland China made accumulated losses, therefore no deferred tax was recognized for withholding taxes accordingly.

NOTES TO FINANCIAL STATEMENTS

20. SHARE CAPITAL

Shares

	2015	2014
	HK$'000	HK$'000
Issued and fully paid:		
1,236,677,333 (2014: 1,235,777,333) ordinary shares of HK$0.1 (2014: HK$0.1) each	**123,668**	123,578
679,599,122 (2014: 680,499,122) convertible preference shares of HK$0.1 (2014: HK$0.1) each	**67,960**	68,050
	191,628	191,628

During the year, the movements in share capital were as follows:

	Number of shares in issue	Number of convertible preference shares	Share capital	Convertible preference shares	Share option reserve	Total
	'000	'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	1,235,777	680,499	120,304	55,368	681	176,353
Convertible preference shares transferred to ordinary shares	900	(900)	–	–	–	–
Equity-settled share option arrangement	–	–	–	–	399	399
At 31 December 2015	1,236,677	679,599	120,304	55,368	1,080	176,752

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 21 to the financial statements.

21. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed at a shareholders' meeting held on 6 November 2005, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 6 November 2005 and, unless otherwise cancelled or amended, shall remain in force for 10 years from that date. Accordingly, the Scheme had been expired on 5 November 2015.

The maximum number of shares issuable upon exercise of all outstanding options which may be granted under the Scheme and any other share option scheme of the Group shall not exceed 80,000,000 ordinary shares in aggregate. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting (with such participant and his associates abstaining from voting).

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

21. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

	2015		2014	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.1120**	**6,400**	1.3119	16,593
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	1.4186	(3,333)
Expired during the year	**–**	**–**	1.4969	(6,860)
At 31 December	**1.1120**	**6,400**	1.1120	6,400

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2015

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
2,100	**1.112**	**5-11-2014 to 5-11-2023**
2,100	**1.112**	**5-11-2015 to 5-11-2023**
2,200	**1.112**	**5-11-2016 to 5-11-2023**
6,400		

21. SHARE OPTION SCHEME (continued)

2014

Number of options '000	Exercise price* HK$ per share	Exercise period
2,100	1.112	5-11-2014 to 5-11-2023
2,100	1.112	5-11-2015 to 5-11-2023
2,200	1.112	5-11-2016 to 5-11-2023
6,400		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 6,400,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,400,000 additional ordinary shares of the Company and additional share capital of HK$640,000 and share premium of HK$6,477,000 (equivalent to RMB5,092,000) (before issue expenses).

As at the date of this report, options carrying rights to subscribe for 6,400,000 shares remain outstanding and yet to be exercised, which represented approximately 0.52% of the Company's ordinary shares in issue as at that date.

22. RESERVES

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

Pursuant to the relevant laws and regulations for Foreign Invested Enterprise ("FIEs") registered in the PRC, a portion of the profits of the Group's subsidiaries in Mainland China has been transferred to the statutory reserve which is restricted as to use and discretionary reserve which is not restricted to use.

Merger reserve represents the reserve arising from business combinations under common control.

NOTES TO FINANCIAL STATEMENTS

22. RESERVES (continued)

Contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. Pursuant to Bermuda company law, a company may make distributions to its members out of the contributed surplus in certain circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire.

23. OPERATING LEASE ARRANGEMENTS

As lessee

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

As at 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 **RMB'000**	2014 RMB'000
Within one year	**568**	574
In the second year	**568**	–
	1,136	574

24. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 23 above, the Group had the following capital commitments at the end of the reporting period:

	2015	2014
	RMB'000	RMB'000
Property development expenditure		
Contracted but not provided for	**8,595**	7,647
	8,595	7,647

25. CONTINGENT LIABILITY

At the end of the reporting period, contingent liability not provided for in the financial statements was as follows:

	2015	2014
	RMB'000	RMB'000
Guarantee given to an independent third party in respect of borrowings	**350,000**	350,000

This represented the maximum exposure of the guarantee provided by a subsidiary of the Company, in favour of a PRC bank in respect of a bank loan of RMB350 million to an independent company for a term of 10 years from December 2011, with a guarantee period up to the end of two years after the next day following repayment of the bank loan in full (the "**PRC Company Guarantee**"). Xiwang Investment agreed to provide an indemnity on 18 November 2012 to the Group against any loss arising from any claim or demand of repayment made against the Group under the PRC Company Guarantee.

NOTES TO FINANCIAL STATEMENTS

26. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

	Notes	2015 RMB'000	2014 RMB'000
Due to related parties:			
Xiwang Group	(i)	**2,207**	2,078
Xiwang Investment Company Limited	(ii)	**55,751**	482
Xiwang Hong Kong Company Limited	(ii)	**58**	57
Xiwang Special Steel Company Limited	(ii)	**–**	587
Qingdao Eurasia Property Co., Ltd	(ii)	**–**	357
Winning China Limited	(ii)	**–**	884
Master Team International Limited	(ii)	**932**	–
		58,948	4,445

(i) The Group had an outstanding balance due to Xiwang Group, of RMB2,207,000 (2014: RMB2,078,000) as at the end of the reporting period. The outstanding balance owed by the Company to Xiwang Group amounted to RMB2,207,000 (2014: RMB2,078,000). These balances are unsecured, interest-free and have no fixed terms of repayment.

(ii) These outstanding balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

(b) Compensation of key management personnel of the Group:

	2015 RMB'000	2014 RMB'000
Short term employee benefits	**520**	822
Post-employment benefits	**17**	14
Equity-settled share option expense	**376**	122
Total compensation paid to key management personnel	**913**	958

Further details of directors' and the chief executive's emoluments are included in note 7 to the financial statements.

27. FINANCIAL INSTRUMENTS BY CATEGORY

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

	2015	2014
	RMB'000	RMB'000
Financial assets- Loans and receivables		
Financial assets included in trade and other receivables (note 12)	**4,220**	23,085
Restricted cash	**–**	1,875
Cash and cash equivalents	**97,612**	11,243
	101,832	36,203
Financial liabilities at amortised cost		
Financial liabilities included in trade and other payables (note 12)	**38,374**	47,666
Due to related parties	**58,948**	4,445
	97,322	52,111

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

At 31 December 2015 and 2014, the fair values of the Group's financial assets and financial liabilities approximated to their carrying amounts.

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

Management has assessed that the fair values of cash and cash equivalents, restricted cash, financial assets included in trade and other receivables, financial liabilities included in trade and other payables, amounts due to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

NOTES TO FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

All of the Group's revenue and substantially all of the Group's cost of sales and operating expenses are denominated in RMB. Accordingly, the transactional currency exposures of the Group are not significant.

Credit risk

There are no significant concentrations of credit risk within the Group as the Group's trade receivables are widely dispersed among different customers. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 16. The Group is also exposed to credit risk through the granting of a financial guarantee, further details of which are disclosed in note 25 to the financial statements.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

To manage the risk, deposits are mainly placed with licensing banks which are all high credit quality financial institutions. The Group would not release the property ownership certificates to the buyers before the buyers fully settle the payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk arises when the Group is unable to meet its current liabilities that fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term bank loans. Through maintaining a reasonable proportion in its asset and liability structure, the Group is able to meet its ongoing financial needs.

The maturity profile of the Group's financial liabilities as at the end of the reporting period is as follows:

	2015					
	On demand RMB'000	**Within one year RMB'000**	**One to two years RMB'000**	**Two to five years RMB'000**	**Over five years RMB'000**	**Total RMB'000**
Trade and other payables	**7,845**	**3,704**	**26,825**	**–**	**–**	**38,374**
Due to related parties	**58,948**	**–**	**–**	**–**	**–**	**58,948**
Total	**66,793**	**3,704**	**26,825**	**–**	**–**	**97,322**

Group	2014					
	On demand RMB'000	Within one year RMB'000	One to two years RMB'000	Two to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade and other payables	11,236	36,430	–	–	–	47,666
Due to related parties	4,445	–	–	–	–	4,445
Total	15,681	36,430	–	–	–	52,111

NOTES TO FINANCIAL STATEMENTS

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital using a gearing ratio, which is net debts divided by equity attributable to owners of the parent. The Group's policy is to keep the gearing ratio at a reasonable level.

Net debts are trade and other payables less cash and cash equivalents and restricted cash. The gearing ratios as at the end of the reporting periods are as follows:

	2015 **RMB'000**	2014 RMB'000
Trade and other payables (note 18)	**127,353**	206,586
Less: Cash and cash equivalents (note 17)	**97,612**	11,243
Restricted cash (note 17)	**–**	1,875
Net debts	**29,741**	193,468
Equity attributable to owners of the parent	**594,000**	605,988
Gearing ratio	**5%**	32%

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**98**	224
Investments in subsidiaries	**217,260**	217,260
Total non-current assets	**217,358**	217,484
CURRENT ASSETS		
Trade and other receivables	**1,205**	292
Due from subsidiaries	**638,353**	552,768
Due from related parties	**–**	–
Cash and cash equivalents	**1,503**	1,950
Total current assets	**641,061**	555,010
CURRENT LIABILITIES		
Trade and other payables	**390**	298
Due to related parties	**58,976**	2,078
Total current liabilities	**59,366**	2,376
NET CURRENT ASSETS	**581,695**	552,634
TOTAL ASSETS LESS CURRENT LIABILITIES	**799,053**	770,118
Net assets	**799,053**	770,118
EQUITY		
Share capital	**175,672**	175,672
Other reserves (note 30)	**623,381**	594,446
Total equity	**799,053**	770,118

WANG Di
Director

WANG Yong
Director

NOTES TO FINANCIAL STATEMENTS

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Note	Share premium account RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2014		–	941	151,442	373,006	(4,946)	75,248	595,691
Loss for the year		–	–	–	–	–	(4,237)	(4,237)
Other comprehensive income for the year		–	–	–	–	2,870	–	2,870
Total comprehensive income/(loss) for the year		–	–	–	–	2,870	(4,237)	(1,367)
Equity-settled share option arrangement	21	–	122	–	–	–	–	122
Transfer of share option reserve upon expiry of share options		–	(382)	–	–	–	382	–
At 31 December 2014		–	681	151,442	373,006	(2,076)	71,393	594,446
Loss for the year		–	–	–	–	–	(5,566)	(5,566)
Other comprehensive income for the year		–	–	–	–	34,102	–	34,102
Total comprehensive income/(loss) for the year		–	–	–	–	34,102	(5,566)	28,536
Equity-settled share option arrangement	21	–	399	–	–	–	–	399
At 31 December 2015		–	1,080	151,442	373,006	32,026	65,827	623,381

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2016.

FIVE-YEAR FINANCIAL SUMMARY

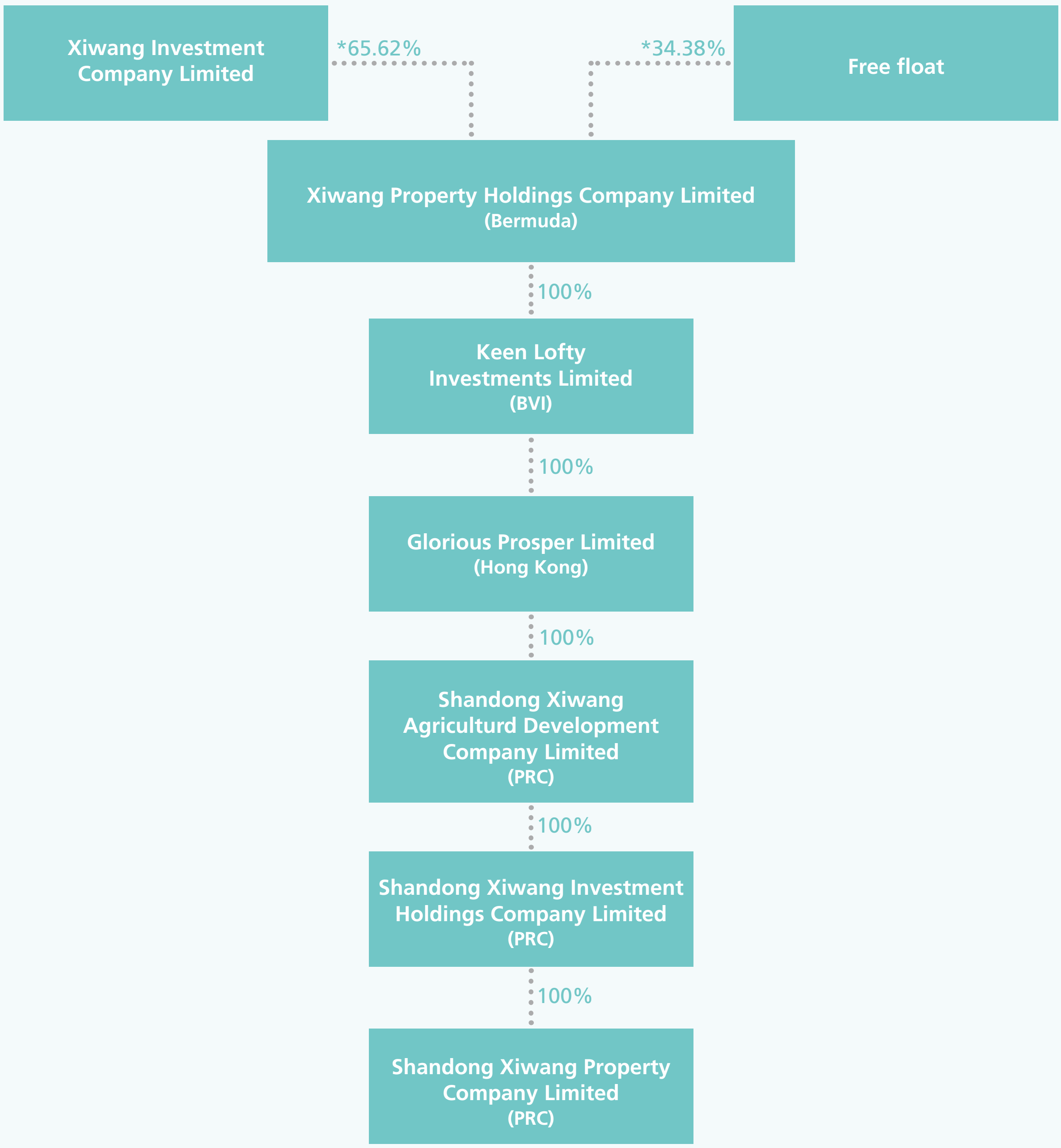
	2015	2014	2013	2012	2011
For the year (RMB million)					
Revenue	**101**	122	179	173	3,633
Gross (loss)/profit	**(9)**	(55)	34	27	456
(LBITDA)/EBITDA*	**(20)**	(88)	19	14	382
Operating (loss)/profit	**(20)**	(88)	17	14	256
Net (loss)/profit	**(15)**	(82)	(966)	(18)	179
As at December 31 (RMB million)					
Current assets	**644**	686	770	3,348	2,075
Non-current assets	**235**	236	252	3,091	2,065
Total assets	**879**	922	1,022	6,439	4,140
Current liabilities	**186**	211	219	3,289	1,672
Non-current liabilities	**98**	104	115	337	319
Total liabilities	**284**	315	334	3,626	1,991
Total equity	**595**	607	688	2,813	2,149
Total liabilities and equity	**879**	922	1,022	6,439	4,140
Per share (RMB)					
Basic (loss)/earnings per share	**(0.01)**	(0.07)	(1.31)	(0.05)	0.18
Dividends per ordinary share**	**–**	–	0.60	–	0.028
Dividends per CPS**	**–**	–	0.61	–	0.038

* amount of the year 2013 excluded non-recurring expenses amounted to approximately RMB 20,160,000

** amount of the year 2013 represented special dividend declared and paid

ORGANIZATION STRUCTURE

As at the date of this annual report:



* These represent the percentage shareholdings of ordinary shares of the Company issued as at the date of this annual report.

XIWANG PROPERTY HOLDINGS COMPANY LIMITED

西王置業控股有限公司 *

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

* *For identification purpose only 僅供識別*