



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

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

Annual Report

2015



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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. YU Pan (*Chairman and Chief Executive Officer*)
Mr. WEN Xiaobing (*Deputy Chief Executive Officer*)
Mr. JIANG Jing (*Appointed on 1 July 2015*)
Mr. WONG Lok

Non-executive Director:

Mr. ZHONG Guoxing

Independent Non-executive Directors:

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

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

SHARE LISTING

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

BOND LISTING

The Stock Exchange of Hong Kong Limited
The Company's 0.1% bonds due 2024,
Stock Code: 05821
The Company's 0.1% bonds due 2024,
Stock Code: 05580
The Company's 0.1% bonds due 2031,
Stock Code: 05855
The Company's 0.1% bonds due 2031,
Stock Code: 05567
The Company's 0.1% bonds due 2032,
Stock Code: 05602

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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8 Linhe Zhong Road, Tianhe District,
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Facsimile: (852) 2890 4459
E-mail: cs@sfr59.com

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISERS

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

Bermuda Laws:
Conyers Dill & Pearman

PRC Laws:
廣東泛美律師事務所
(Guangdong Pan American Law Firm)

COMPANY'S WEBSITE

<http://www.tianyudc.com>

CHAIRMAN'S STATEMENT



Notwithstanding the uncertainties and challenges in the year 2015, the Group executed its project development plans as planned and exceeded the annual contracted sale target of RMB3.0 billion by 9%, achieving record contracted sales of RMB3.27 billion. Amongst, our Nanning Skyfame Garden Project achieved contracted sales of RMB1.65 billion and our signature project, Zhoutouzui Project, a large-sized residential project, at the riverfront in Haizhu District in the central Guangzhou, named Skyfame Byland, launched its presale since January 2015 with contracted sales of RMB1.53 billion made for the year.

The property market performance in the third and fourth-tier cities comparing with the first and second-tier cities are two extremes. Sales in the former are still suppressed due to the general problem of high inventories, whilst in the latter, sales showed obvious improvement this year as a result of the government's rolling out of easing measures since the second half of 2014 that include the lowering of mortgage requirement in down payments, and the loosening in the property sales to foreigners and borrowing from home provident funds. By reflection of the present market situation, our development of a zone in our Nanning Skyfame Garden Project with small-sized high-end apartments with sizes 36

sq.m. to 76 sq.m., uniquely designed for young home buyers who prefer the styles of living in a community developed for youngsters, were the best sellers for which presale launches of 1,100 units have been sold out since its first launch in late December 2015. Pre-sale in this niche market for housing with uniqueness serving the particular needs of the buyers has seen to be promising. Having said that, due to the nationwide economy going downward, the sales of upgraded residential properties of large-sized residential properties and in lower-tier cities are still slow.

Our sales in Yongzhou Project, a residential property development in a lower-tier city in Hunan province, were at low level whereas demand was boosted at low prices. The project brought RMB269.3 million recognized sales to the Group in the current year with GFA of 80,700 sq.m. handed over to buyers whilst properties of GFA 73,900 sq.m. were unsold. Confronting the sluggish market and to alleviate the uncertainties at the future stages of development of the project in Yongzhou, the management entered into an agreement in November 2015 with the district government in Yongzhou to terminate the development of the remaining phases of the project without incurring additional costs or losses as a result of the termination. For proper allocation of financial resources of the Group, the management will put in aggressive sale and promotional efforts to clean up the inventories on hand in Yongzhou, despite that the implementation of the strategy will lead to estimated impairment losses of RMB20.0 million that was provided for and booked against the current year operating results.

The Group is now maintaining a total developable area of 3.3 million sq. m. in Guangzhou and Nanning that can serve the growth requirement of the Group in the coming 5 to 6 years until 2022, of which the Tianhe Project and part of the Nanning Skyfame Garden Project in a total estimated GFA of 190,600 sq.m. will be delivered in 2016. With the proven demand for community living of youngsters in a niche market, the management will focus in building up and executing business plans in the development of properties serving the needs of such group of customers.

Since its establishment in 1997, the management team and the Company have been devoted in the development of dedicated properties in China and have received high recognition for the Company's mission to maintain a trustworthy image to our customers and working parties. On behalf of the board of directors, I express my thankfulness to our management team and sincere gratitude to our business partners, lenders, contractors, service providers and customers for their trust on us that enable us delivering such mission.

Yu Pan
Chairman
Hong Kong, 18 March 2016

CORPORATE PROFILE

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

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

As of the date of this report, the Group has property development projects in the pipeline with a total developable GFA of approximately 3.3 million sq.m., covering cities in Guangzhou, Nanning and Yongzhou.

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

Highlights of Events in 2015

- Feb
 - The Group acquired the land use rights of three land plots at the north of Wuxiang Da Road, Wuxiang New Zone, Liangqing District, Nanning, Guangxi province for a composite development named as "Skyfame Nanning ASEAN Maker Town".
- Mar
 - The Group entered into a framework agreement with the district government of Liangqing in Nanning, Guangxi province for the development of properties for the settlement of residents in a shanty town near the Group's Nanning Skyfame Garden Project.
- July
 - The Company entered into a facility agreement with a financial institution for a term loan in an aggregate amount of HK\$560 million and a subscription agreement for the convertible bonds to be issued by the Company in an aggregate principal amount of HK\$40 million.
- Aug
 - Guangzhou Tianyu Property Management Company Limited was awarded the first-tier property management qualification certificate by the National Ministry of Housing and Urban-Rural Development.
- Sep
 - Mainframes of all towers in Zhoutouzui Project in Guangzhou were completed.
- Dec
 - Presales of apartments of the community for youngsters namely "Mr. Fish Community" in a zone in Skyfame Garden Project in Nanning were firstly launched and received overwhelming sale responses from the market.
- Dec
 - Tianhe Project in Guangzhou passed the preliminary inspection for completion of the project.

Major Honour and Award

Nanning Skyfame Garden won the grand award of "New Landmarks in Cities of China 2015" (「2015 中國城市新地標」)

(March 2015)



BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Pan (*Chairman and Chief Executive Officer*)

Aged 51, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 26 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited*), which was set up in July 1997 from which the Company acquired some real estate projects in Guangzhou in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing (*Deputy Chief Executive Officer*)

Aged 47, was appointed as executive director in November 2013. He is also the Deputy Chief Executive Officer of the Group and President of the Guangzhou head office in charge of overall management of the property development and investment business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 25 years of working experience in managerial positions in corporations in the PRC.

Mr. JIANG Jing

Aged 43, was appointed as executive director in July 2015. He is also the Vice President of Guangzhou head office and assists the Chief Executive Officer to explore investment and mergers and acquisition business. Mr. JIANG holds a Bachelor's Degree in Social Work and Management from 內蒙古農業大學 (Inner Mongolia Agricultural University). He is professionally qualified as an economist (Intermediate level) specialized in finance in the PRC and a mechanical engineer (Intermediate level). Mr. Jiang had 23 years of managerial and technical working experience in the PRC incorporated enterprises.

Mr. WONG Lok

Aged 58, joined the Company in August 2005. Mr. WONG has over 30 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

NON-EXECUTIVE DIRECTOR

Mr. ZHONG Guoxing

Aged 49, was appointed as non-executive director in October 2013. Mr. ZHONG graduated from the Hunan University, majoring in Manufacturing Accounting and holds a Master's Degree in Business Administration from the Asia International Open University (Macau). He has over 30 years of experience in banking, finance and assets management. Mr. ZHONG at present is the executive director and co-president of China Orient Assets Management (International) Holdings Limited, a subsidiary of China Orient Asset Management Corporation.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan

Aged 61, joined the Company in December 2004. Mr. CHOY holds a Master Degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock code: 119).

Mr. CHENG Wing Keung, Raymond

Aged 56, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has over 28 years of experience in corporate, company secretarial and listing affairs. Mr. CHENG is an independent non-executive director in a listed company in Hong Kong, namely Sino Resources Group Limited (Stock code: 223).

Ms. CHUNG Lai Fong

Aged 48, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 20 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs.

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

Aged 53, joined the company in March 2005 and has been the Company Secretary of the Company since then. Ms. CHEUNG is also the Vice President in charge of all finance affairs at the corporate level of the Group. Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master Degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 30 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LIN Shengjie

Aged 50, is the Vice President of the Guangzhou head office in charge of all general financial operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) (Formerly known as Guangdong University of Business Studies (廣東商學院)) and has over 25 years of working experience in the finance and accounting in property development, direct investments in the PRC, Thailand and Hong Kong.

Mr. XIE Xiaohua

Aged 45, is the Vice President of Guangzhou head office in charge of engineering and costing at the Guangzhou head office. Mr. XIE graduated from Sun Yat-sen University (中山大學) with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 21 years of working experience in the area of engineering management in overall project development.

Ms. YUAN Hongfang

Aged 44, is the Vice President of the Guangzhou head office in charge of contract and legal matters of Guangzhou head office. Ms. YUAN graduated from Lingnan College, Sun Yat-sen University (中山大學嶺南學院) and holds a Master Degree in Business Management. She has over 21 years of working experience in finance, administration in the sectors.

Mr. ZHENG Zhong

Aged 45, is the Vice President of Guangzhou head office in charge of design matters at the Guangzhou head office. Mr. ZHENG graduated from Xiamen University (廈門大學) with a Bachelor's Degree in Engineering and holds a grade 1 registered architect certificate. He has over 23 years of working experience in the area of architectural design management in large-scale property developers in the PRC such as Aoyuan (澳園) and the Sincere Group (協信集團).

Mr. PAN Hanming

Aged 45, is the Vice President of Guangzhou head office in charge of engineering of the super high-rise building. Mr. PAN graduated from Tongji University (同濟大學) with a Doctor's Degree in Civil Engineering and has conducted postdoctoral research in Tsinghua University. He also holds a senior engineer certificate. Mr. PAN has over 11 years of working experience in architectural design and management of high-rise building in the construction and property sector in the PRC.



MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

The business of the Group in the year confirms a mild recovery in the property sector in some regions of the country. Following various relaxation of regulatory policies and stimulative measures that were put onto the market throughout the year spurring the demand for properties, sales of properties turn positive in some regions in the year despite a slowing economy on mainland China. However, the strong demand for housing rests on properties for basic housing needs in the first and second-tier cities where both prices and sale volumes demonstrate improvements at different extents. Sales in the third and fourth-tier cities, where the bulk of inventories remain an issue, have not yet bottomed up.

During the year, in addition to the sales of those completed properties of Yongzhou Project, the Group has launched its two other projects, namely the luxurious residential project in Zhoutouzui, Guangzhou and high-end residential project at Nanning Skyfame Garden in Nanning for presale. The pre-sale performance in Guangzhou and Nanning is within the expectation of our management whilst sales in Yongzhou are still slow, reflecting the divergence in the property sales in the different market territories. For the year, contracted sales in aggregate of approximately RMB3.3 billion and a total saleable GFA of approximately 347,800 sq.m. from mainly the two projects in Zhoutouzui and Nanning have been made, indicating a 109.0% achievement of the annual target contracted sales of RMB3.0 billion.

In the year, an aggregated saleable GFA of approximately 80,700 sq.m. of the completed properties in Yongzhou Project were handed over to buyers for which sale revenue before direct tax of approximately RMB285.4 million was recorded. Comparing with last year, sale revenue from property sales in 2015 grew by 132.0% which was caused by the larger volume of properties completed and delivered to customers in Yongzhou Project during the year.

B. PROPERTY PORTFOLIO

1. *Properties under development and land reserves*

Including the new project with planned developable GFA of approximately 1,405,000 sq.m. which are situated at the riverfront in Nanning acquired in a public land auction in February 2015, the Group was undergoing the development of a total of five real estate development projects in mainland China as at 31 December 2015. As at the date of this report, the Group's projects on hand renders a total developable GFA of approximately 3,251,000 sq.m., out of which a total saleable GFA of approximately 527,000 sq.m., excluding that for the resettlement housing in the Nanning Skyfame Garden Project, are currently or will be in pre-sale stage in the coming months of 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

1. Properties under development and land reserves (continued)

The details about the Group's projects on hand as at the date of this report are summarised below:

Project	Location	Property type	Estimated project total developable GFA (sq.m.) (Note 1)	Actual/estimated completion year	The Group's interest
Zhoutouzui Project	Guangzhou	Residential and commercial	320,000	2017	72%
Tianhe Project	Guangzhou	Commercial	112,000	2016	(Note 2)
Nanning Skyfame Garden Project	Nanning	Residential, commercial and ancillary facilities	1,207,000	2016 to 2018	80%
Skyfame Nanning ASEAN Maker Town Project	Nanning	Composite	1,405,000	2018 to 2022	100%
Yongzhou Project	Yongzhou	Residential, commercial and ancillary facilities	207,000 (Note 1)	2014 to 2016	70%
Total			<u>3,251,000</u>		

Notes:

(1) Project total developable GFAs presented here represent the total GFA developable in the project, including the area sold and delivered in the year and previous years. The developable GFA in Yongzhou Project includes 60.1% of developable GFA which has been sold and delivered up to 31 December 2015.

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

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

1. Properties under development and land reserves (continued)

Zhoutouzui Project



Skyfame Byland – Artist's Impression

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

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



Skyfame Byland – Artist's Impression



Tower A1 of Skyfame Byland

As of 25 February 2016, the landscape of the project has been further upgraded. The management expects that construction works of all towers will be completed in 2017. Except for a total saleable GFA of approximately 81,000 sq.m. in tower A4 and A5 and some car parking spaces that will be handed over to the Port Authority in 2017, it is currently planned that all other towers are developed for sales. Pre-sales of residential units in tower A3, A6 and A7 were launched in

2015. Up to 25 February 2016, contracted sales of approximately RMB1,544.2 million (total saleable GFA of approximately 44,600 sq.m.) have been made, of which pre-sale deposits of approximately RMB1,472.2 million have been received.

Tianhe Project

The project, consisting of a developable GFA of approximately 112,000 sq.m. in two twin towers, is a mixed-use development that comprises a hotel, serviced apartments and offices situated in Tianhe District, a commercial business hub in central Guangzhou. As of 25 February 2016, examinations for final inspection for completion have been in process. Delivery of the completed properties is expected to be completed before mid-2016.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

1. Properties under development and land reserves (continued)

Tianhe Project (continued)



Tianhe Project

The equity interest in the project company engaged in the development of the project was disposed to Hainan Airline Hotel Holdings Group Co., Limited (海航酒店控股集團有限公司) (“HNA Hotel”) pursuant to a disposal agreement entered into in 2010 at a gross consideration of RMB1.09 billion before deduction of finance and other costs that are to be borne by the Group and the Group is obliged to deliver the project upon the obtaining the board title of the completed towers.

Given the current progress of the development, the directors expect that the project will be completed in 2016 and the sale transaction and the resulting gain from the sale of properties will then be fully recorded in the accounts of the Group.

Nanning Skyfame Garden Project

The project is situated in Wuxiang New District (五象新區), a new zone in Nanning, Guangxi province. Commenced construction since the Group acquired the land use right from a land auction in the first quarter of 2014, the project is being developed into a residential district, namely “Nanning Skyfame Garden” (“南寧天譽花園”), with a total developable GFA of approximately 1,207,000 sq.m., consisting of developable GFA of approximately 918,000 sq.m. for residential and retail properties and other facilities for sale and a total developable GFA of approximately 289,000 sq.m. of residential and commercial units for compensated housing for the resettlement of the original occupants. The project is divided into five zones, namely Zone 3, 4, 5, 6 and 7.



Nanning Skyfame Garden – Artist’s Impression



Zone 3 of Nanning Skyfame Garden

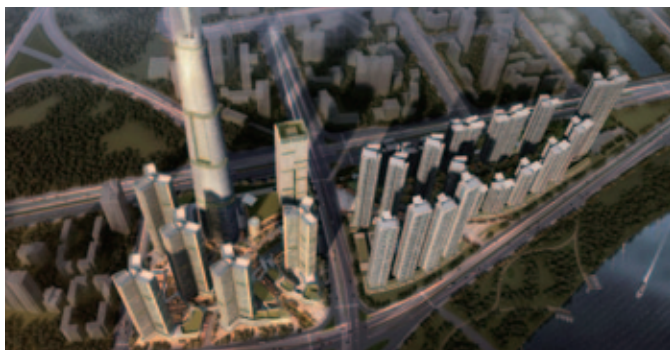
As of 25 February 2016, all the 5 zones are under construction. 31 out of total 66 towers, have been roof-topped. Pre-sales of property units in Zone 3, 4 and 5 of saleable GFA of approximately 429,400 sq.m. have commenced and contracted sales totaling approximately RMB2,067.9 million (total saleable GFA of approximately 340,900 sq.m.) have been made so far since the initial launch, of which presale deposits of approximately RMB1,373.9 million have been received. Physical delivery to buyers are scheduled to take place by phases through late 2016 to 2018. In addition, aggregated saleable GFA of 289,000 sq.m. in Zone 4, 6 and 7 will be delivered to original land occupants for resettlement housing for which sale proceeds totaling RMB993.2 million have been received from the district government. The management expects the handing-over will take place in 2017 and 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

1. Properties under development and land reserves (continued)

Skyfame Nanning ASEAN Maker Town Project



Nanning ASEAN Maker Town – Artist's Impression

In February 2015, the Group acquired through public auction for the land use rights of three land plots of site area of 194,221 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi, the People's Republic of China at an aggregate consideration of approximately RMB705.0 million. The development is planned to be a complex project which will become a landmark in Wuxiang New District comprising A-class offices, residential, hotel, retail properties, a skyscraper with a planned height of approximately 530 meter, car parks for sale and leasing and other ancillary facilities with a planned total developable GFA of approximately 1,405,000 sq.m..

The project is divided into east and west zone and will be developed in phases. The east zone consists of A-class offices, a skyscraper, a hotel and retail properties while the west zone consists of residential and retail properties. Development works have commenced. Construction works are expected to be completed between the years from 2018 to 2022.

Yongzhou Project

The Project, named "Tianyu-huafu" ("天譽•華府"), features a residential development of villas, apartments and retail shops with a total saleable GFA of approximately 185,300 sq.m. on a 106-mu site. As of 31 December 2015, remaining 2 towers of high-rise apartments of saleable GFA of approximately 25,400 sq.m. are under construction and will be completed in mid-2016, and saleable GFA of approximately 48,500 sq.m. of villas, retail shops, high-rise apartments and underground car park spaces have been completed but not yet sold. Up to 31 December 2015, an aggregated saleable GFA of approximately 111,400 sq.m., mainly of apartments, have been sold and delivered to buyers since the start of the initial delivery of properties in May 2014 and the revenue for properties sold of saleable GFA of approximately 80,700 sq.m. was recognized in the operating results of the Group for the current financial year and revenue in respect of other saleable GFA 30,700 sq.m. recognized in the previous years. Out of the saleable GFA of approximately 73,900 sq.m. unsold as at 31 December 2015, sale contract for saleable GFA of approximately 19,600 sq.m. have been made up to 31 December 2015.



High-rise apartments of Tianyu-Huafu

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO (continued)

2. Investment properties

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

A 17,300 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou is 84.4% occupied as at 31 December 2015. The Directors consider the properties are fairly stated in the statement of financial position of the Group as of 31 December 2015 at directors' estimated open market values totaling RMB448.0 million.

A 14,500 sq.ft. office premise at AXA Centre in Wanchai, Hong Kong of which GFA of 8,700 sq. ft. are leased to third party tenants and the other 5,800 sq. ft. for self-use. The leased area is 74.8% occupied as at 31 December 2015. The Directors consider the property is fairly stated in the statement of financial position of the Group as of 31 December 2015 at directors' estimated open market value of approximately RMB122.1 million (HK\$145.7 million).

C. BUSINESS OUTLOOK

China's main economic goal in 2016 is to manage a soft landing after a turbulence year in 2015. The soft landing will enable the economy to achieve a smooth transition to a "new normal" low GDP growth whilst allowing slower but more sustainable development. Slower economic growth, in combination with abundant new supply of real estates, is set to push up vacancy rates in residential properties in third and fourth-tier cities though the property sector in the first and second-tier cities remain steady. To accomplish such economic goal, we expect further easing policies are likely to be taken by the central government.

The presales mainly in Zhoutouzui Project and Nanning Skyfame Garden Project continue in 2016 for which the management has set an annual sale target of RMB3.6 billion, representing a 10.1% increment to the contracted sales in 2015. To achieve the target, the management endeavors to boost sales, despite the challenges in the markets. Depending on the timing of delivery of the presold properties, contracted sales will be turned into recognized sales in the years of 2016 to 2018. In the year 2016, the Group's projects offer an aggregated saleable GFA approximately of 264,000 sq.m. that will be completed and can be recognized as revenue for the year, consisting of respectively 78,100 sq.m. in Nanning Skyfame Garden Project, 73,900 sq.m. in Yongzhou Project and 112,000 sq.m. in Tianhe Project. In respect of Tianhe Project, revenue of approximately RMB1,114.6 million will be recognized for the year 2016.

The Group has built up a property portfolio ready for presales and sales in the years to come. These sales will no doubt improve at an obvious extent the Group's free cash position that can be used for acquisitions of new projects to sustain the Group's business as a financially stable developer on mainland China.

D. FINANCIAL REVIEW

Sales Turnover and Margins

Property sales of the Group constitute 87.9% of total revenue for the year. During the year, residential properties of apartments, villas and commercial units in "Tianyu-huafu" development in Yongzhou, Hunan province delivered a total GFA of approximately 80,700 sq.m., recognizing a total revenue of RMB269.3 million for the year, whilst revenue of RMB116.1 million was recorded for the sales of 33,300 sq.m. in GFA of properties developed in Yongzhou and Guiyang for 2014. Sales revenue grew in line with the higher sale volume for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

D. FINANCIAL REVIEW (continued)

Sales Turnover and Margins (continued)

The overall gross margin on properties sold is higher than last year due to the different mix of properties sold in the two years whereas commercial units with higher margin were sold this year but none in 2014. However, profitability for the year was sacrificed by sales of low-margin apartments made at very low prices during the year. The apartments were sold at RMB3,100 per sq.m., whilst their carrying costs are RMB3,200 per sq.m.. The low profitability of apartments is compensated with the sale revenue of commercial units with 69.4% margin, making the overall margin of property sales for the year 2.3% (2014: 0.9%) Given the unfavorable market situation in the region, the management expects that the properties on sale, mainly comprising villas and commercial units with a total GFA of 24,400 sq.m. at total carrying property costs of RMB133.9 million, can only be realized with very aggressive pricing strategies. The management hence estimates an impairment loss of RMB20.0 million for the unsold or being completed properties in Yongzhou Project that has been provided against the profit for the year. Notwithstanding the unsatisfactory profitability from Yongzhou Project, the management expects profitability of property sales of the Group will improve in 2016 when commercial properties completed in Tianhe Project in Guangzhou are delivered and revenue recognized at a higher profitability in the books.

The leasing of properties at the commercial podium at Tianyu Garden Phase II in Guangzhou and offices at AXA Centre in Wanchai, Hong Kong, the Group's secondary line of business, contributed a relatively stable revenue of RMB18.3 million, an increase of 2.1% from last period. The rise in leasing income for the year was reflected by the improved occupancy of the premises. The occupancy rate of the commercial podium at Tianyu Garden Phase II and AXA Centre is respectively 84.4% and 74.8% as at 31 December 2015. The gross margin of this income stream is 89.0% (2014: 89.3%).

The property management company acquired by the Group in early 2014 provides another new business line the Group that brings relative stable income of RMB18.7 million for the year (2014: RMB23.8 million). The drop in income from this business line for the year was explained by the disposal of a property management company in November 2014 that serviced our residential project in Guiyang that was disposed during last year.

Due to the higher proportion of property sales with low margins in sale mix for the period, the overall gross margin of the Group for the period is 11.1%, which is lower than the 21.5% for 2014.

Operating Expenses

Bigger marketing activities were put up during the year to keep abreast with the presales of Nanning Skyfame Garden Project and Zhoutouzui Project, sales and marketing expenses, consisting of mainly advertising, promotions and agent commission, surged 99.3% to RMB46.0 million. Administrative and other operating expenses amounting to RMB137.5 million, increased 35.7% from last period. Staff costs, being the biggest expense item constituting 40.2% of total operating expenses, amounted to RMB108.3 million (2014: RMB76.9 million), representing a 40.8% rise from last year. Total staff costs RMB34.4 million were capitalized as development costs of properties under development. The rise in staff costs is mainly resulted from the recruitments of more staff in higher positions in the property development business with higher levels of payroll.

MANAGEMENT DISCUSSION AND ANALYSIS

D. FINANCIAL REVIEW (continued)

Finance Costs

Finance costs, including arrangement fees, incurred during the year rose 15.2% to RMB272.3 million. The increase was explained by the Group's additional borrowings to finance the acquisition of land and construction of projects during the year. Most finance costs incurred were capitalized as costs of projects under development whilst only RMB1.8 million was charged against the operating results for the year. Despite the increased finance costs, the Group's annualized blended borrowing cost for the year is 10.8% per annum, lower than the 12.4% for 2014. The general trend of decreasing borrowing costs on the onshore finance market and the comparatively increased lower-cost borrowings help reduce the financial burden of the Group. We expect the declining trend will continue in the coming 2016.

Non-operating Items

As a result of the downward adjustment of the official exchange rate of RMB by the People's Bank of China in August 2015, the exchange rates of RMB against Hong Kong or US dollars have been depreciated by 6% up to 31 December 2015. The depreciation causes an unrealised exchange loss of RMB69.0 million on the conversion of foreign denominated offshore debts into RMB at year-end date.

Other non-operating items include mainly the gain of RMB2.6 million arising from the changes in fair values of the derivative financial asset/liabilities attached to the Company's convertible bonds in the principal amount of HK\$40 million issued in the year and medium term bonds due in 2024 and 2031, revaluation surplus of RMB6.7 million in fair market values of investment properties, and the write down of RMB20.0 million on cost of properties under development/properties held for sale.

Taxation

Provision in taxation mainly included a provision for land appreciation tax ("LAT") in the sales of properties in Yongzhou Project. Also included is a write-off of the provisional LAT and corporate income taxes, totaling RMB14.3 million previously paid to the local tax authority that is considered not recoverable in consequence of the planned exit of the Yongzhou Project.

Losses Attributable to Shareholders

The Company incurred a consolidated after-tax loss of RMB232.3 million for the year of which losses of 211.8 million were attributable to the shareholders of the Company.



MANAGEMENT DISCUSSION AND ANALYSIS

D. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources

1. Asset Base

	Change in %	2015 RMB'000	2014 RMB'000
Total assets	49.6%	10,357,027	6,924,966
Net assets	-13.1%	1,509,005	1,735,614

Total assets, in aggregate of RMB10,357.0 million, expanded during the year in line with the business growth of the Group in real estate development. Properties under development, with total carrying costs of RMB6,159.3 million, is the biggest asset category constituting 59.5% of the total assets of the Group, Other assets include interests in Tianhe Project of RMB786.2 million, investment properties at fair market values totaling RMB570.1 million, properties held for sale of RMB177.9 million, properties for self-use, plant and equipment of RMB262.7 million, consideration receivable for the disposal of Tianhe Project of RMB105.0 million, restricted cash and pledged deposits of RMB922.7 million, cash and cash equivalents of RMB383.3 million, short-term investments of RMB460.0 million, and the remaining include properties held for sale in Yongzhou Project, trade deposits and receivables and balance of sale consideration receivable from HNA in respect of the disposal of the equity interest in Tianhe Project.

2. Capital structure and liquidity

The indebtedness of the Group aggregates to RMB2,772.4 million at the year-end date, representing an increase of 21.9% from last year-end. Other than borrowings, indebtedness also include money market loans of RMB891.6 million due to banks which are guaranteed by letters of credits issued by banks and backed up by cash deposits of RMB452.0 million and short-term investments of RMB460.0 million placed with a commercial bank. Excluding these money market loans, the indebtedness of the Group amounted to RMB1,880.8 million at the year-end, an 4.4% increase of the comparable indebtedness in last year-end date. The details and maturity profile of the indebtedness are illustrated as follows:-

	Within one years RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 year RMB'000	Total carrying amount RMB'000
Bank and other borrowings					
– Secured bank borrowings	1,365,846	3,179	10,079	50,970	1,430,074
– Other secured borrowings	500,000	466,563	–	–	966,563
– Unsecured borrowings	83,092	112,000	–	168,093	363,185
	1,948,938	581,742	10,079	219,063	2,759,822
Derivative financial liabilities	–	5,877	–	6,696	12,573
	1,948,938	587,619	10,079	225,759	2,772,395

MANAGEMENT DISCUSSION AND ANALYSIS

D. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources (continued)

2. Capital structure and liquidity (continued)

The borrowings that mature within one year represent 70.3% of the total indebtedness of which RMB1,198.9 million become due in the first quarter of 2016. Up to the date of this report, all of these due indebtedness have been settled or refinanced in full. The remaining borrowings represented mainly bank loans that will be repaid by presale deposits at the times when the projects go onto mature stages of sale, and money market loans indirectly secured by cash deposits.

The gearing ratio, calculated as total indebtedness net of cash and cash equivalents (the “**Net Debt**”) divided by the equity attributable to shareholders of the Company plus Net Debt, is 53.6% at the year-end date (2014: 51.0%). The increase in the gearing ratio reflects the rise in the Group’s indebtedness for the financing of the development costs of the development projects.

The management has been carefully monitoring the indebtedness position, aiming to strike a balance between indebtedness and liquidity for ensuring the obligations of indebtedness and financial needs of the Group are taken care simultaneously. The Group has put reliance on borrowings to sustain its operation in the past years to sustain the development of the projects on hand. Notwithstanding, the management points out that the Group’s existing property portfolio will realize handsome liquidity from property sales in the coming years and profits realized from contracted sales when completed properties are delivered in the coming years 2016 through 2022. This will no doubt strengthen the cash and equity position of the Group to support its acquisitions of new development projects.



MANAGEMENT DISCUSSION AND ANALYSIS

D. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources (continued)

2. Capital structure and liquidity (continued)

	Change in %	2015 RMB'000	2014 RMB'000
Current assets			
Properties under development	60.9%	6,159,277	3,828,284
Properties under Tianhe Project	100.0%	786,168	–
Properties held for sale	41.7%	177,850	125,526
Consideration receivable – current portion	100.0%	105,000	–
Trade and other receivables	6.2%	495,974	467,037
Short-term investments	88.5%	460,000	244,000
Loan to non-controlling shareholder of subsidiary	100.0%	20,400	–
Restricted and pledged deposits	175.6%	922,729	334,844
Cash and cash equivalents	90.6%	383,255	201,105
<i>Sub-total (A)</i>	82.9%	9,510,653	5,200,796
Current liabilities			
Trade and other payables	424.9%	1,200,733	228,774
Properties pre-sale deposits	153.9%	3,710,375	1,461,340
Bank and other borrowings – current portion	54.2%	2,013,166	1,305,610
Derivative financial liabilities – current portion	–100.0%	–	32
Consideration from disposal of Tianhe Project – current portion	100.0%	990,360	–
Income tax payable	–91.7%	5,378	64,971
<i>Sub-total (B)</i>	158.8%	7,920,012	3,060,727
Net current assets (A-B)	–25.7%	1,590,641	2,140,069
Current ratios (A/B)	–29.3%	1.20	1.70

Current assets, totaling RMB9,510.7 million as at the year-end date, show a 82.9% increase than that on last year-end date. The increase in current assets is mainly due to the increased development costs incurred in projects and the increase in cash received from presales.

MANAGEMENT DISCUSSION AND ANALYSIS

D. FINANCIAL REVIEW (continued)

Liquidity and Financial Resources (continued)

2. Capital structure and liquidity (continued)

Total current liabilities at the current year-end amounted to RMB7,920.0 million, representing an increase of 158.8% from last year-end date. The increase in current liabilities is mainly due to the increased pre-sale proceeds received, borrowings that become repayable within one year, the reclassification of sale consideration received from the buyer of the Tianhe Project to current liabilities when the project is scheduled for completion in early 2016 and the increased in liabilities to contractors as a result of the expansion in development activities during the year.

The current ratio, being 1.20 times at the year-end (2014: 1.70 times), indicates theoretically a tightened liquidity position as a result of the increased current liabilities as at the year-end date. The increase in current liabilities mainly due to presale proceeds of RMB3,710.4 million and the considerations received from a purchaser totaling RMB990 million for the disposal of the equity interests in Tianhe Project. These liabilities will be recognized as revenue upon the completion of the projects at specified timelines which the management targets to meet. In regard to the other current liabilities, thanks to the stronger liquidity generated from the presale and sale activities in foreseeable periods, the management foresees that the short-term indebtedness can be sufficiently served by the current assets of the Group.

3. Borrowings and pledge of assets

The land and construction works-in-progress in Zhoutouzui Project, the commercial units at AXA Centre and office premises at HNA Tower, and certain units at the commercial podium in Tianyu Garden Phase II are mortgaged in favour of commercial banks and the beneficiary of a trust to secure for financing facilities granted to the Group for its general working capital. In addition, all the issued shares of GZ Zhoutouzui, a subsidiary holding the equity interest in Zhoutouzui Project, are charged as security in favor of a lender and a convertible bond issued to a financial institution in 2015. As at the year-end date, the outstanding balances of these secured indebtedness amounted to RMB2,402.5 million whilst the pledged assets and the underlying assets represented by these securities carried an aggregated realizable value of estimated at approximately RMB7,425.3 million measured by open market values as at the year-end date. The securities provide sufficient leverage to the creditors. The Group is well backed by sufficient assets in its indebtedness.

E. CONTINGENT LIABILITIES

On 28 July 2015, a legal action was raised against the Yucheng, the project company of Zhoutouzui Project, by a Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), a wholly-owned subsidiary of Port Authority, to claim for compensation in the amount of RMB20.0 million for the demolition and relocation of occupants of the site on which the properties are being developed. The claim was made pursuant to an agreement entered into with Port Authority and Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and Yucheng. The management considers that all demolition and relocation works have been completed and related costs fully settled by Yucheng. The claim is currently being dealt with out of court and is in the course of negotiations with the claimant and the project company. With the belief that the project company has legal grounds to contest against the claim, the directors have not made any made provision in the accounts of the Group to provide for the compensation claimed by the claimant.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 31 December 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

F. TREASURY MANAGEMENT

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. At the same time, certain financing, property leasing, investment holding and administrative activities of the Group are carried out and denominated in HK or US dollars. At the year-end date, the Group has foreign currency denominated borrowings and financial derivatives equivalent to RMB1,739.8 million, representing 62.8% of total indebtedness, and an overseas properties with carrying value equivalent to RMB190.7 million. The other assets and liabilities are mostly denominated in RMB.

Unlike the previous years, since August, 2015 and up to the year-end date, RMB have depreciated against HK and US dollars by 6.2%. Foreign exchange losses of RMB69.0 million were unrealised when the liabilities denominated in foreign currencies are converted at RMB in the financial accounts. Exchange differences arising from the consolidation of assets and liabilities of a subsidiary operated in Hong Kong as at the year-end date results to an unrealised exchange loss of RMB0.9 million. The loss is charged against the exchange reserve that forms part of the equity of the Company.

We expect that the volatility of the exchange rate of RMB will continue in the coming 2016 and further depreciation of RMB may happen, bringing negative impact on profitability of the Group when losses arise as foreign currency denominated indebtedness are converted into RMB upon repayment or at reporting period-ends. Whilst there is no natural hedge against the depreciation of RMB available to the Company in the meantime, the management will make every effort to refinance or reduce the foreign currency debts by RMB debts or taking financial instruments to manage the foreign exposure at reasonable costs so as to reduce the foreign currency exposure.

G. RISKS MANAGEMENT

There are lots of risks that a business our management have to face and cope, in particular under a down-ward business cycle where property sales are low and unpredictable that may lead to illiquidity in cash flows. In addition, as a mainland real estate developer, we have to face lots of uncertainties led by changes of government regulations. Assessing regularly the possible risks and uncertainties and their impacts on the business and operational environment, the management will from time to time develop strategies to alleviate the impacts of these risks and uncertainties. During the financial year, we have set up a risk management committee that help formulate procedures at the senior management to identify risks, both existing and new, and develop appropriate policies to encounter the risks in priority of the significance of impacts.

H. EMPLOYEES

The Group recruits suitable staff in capable caliber to fill vacancies created as a result of the growing business. As at 31 December 2015, including four executive directors of the Company, the Group employed a total of full-time 578 staff, of which 178 work in site offices, 166 in the head office in Guangzhou and office in Hong Kong for central management and supporting work in the property development business and 234 full-time staff in the property management offices in Guangdong, Hunan provinces and Nanning. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by bonuses benchmarked on performance targets and options to acquire shares of the Company. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

INTRODUCTION

The report covers the Company and its subsidiaries (collectively referred to as “the Group”) for the financial year ended 31 December 2015.

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

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

ENVIRONMENT

Pollutants are generated in the process of all property development projects. These mainly include: (i) various kinds of machineries noises produced during construction; (ii) dusts, exhaust air emission resulted from various kinds of machineries and transportation vehicles, and gas emitted from organic wastes left during renovation; (iii) wastewater generated from construction sites and domestic sewage generated by construction workers; (iv) remaining wastes material left in the construction site and garbage disposed of by construction workers. All these will adversely affect the surrounding environment, and corresponding pollution prevention and environmental management measures must be taken to reduce such impact.

A. Construction Discharge

1. Machinery Noises

Construction noises come from various kinds of machineries such as foundation piling machines, excavators, and bulldozers, etc. with noise levels ranging from 80~110dB(A). Renovation noises come from machines such as drills, collecting machines, cutting machines, electric saws and other mechanical noises with noise levels ranging from 70-92dB(A). To reduce the impact to the surrounding environment so that the boundaries of the construction sites can meet the requirements of “Emission Standard of Environment Noise for Boundary of Construction Site” (《建築施工場界環境噪音排放標準》) (GB12523-2011), the construction teams are required to take the following measures to reduce the impact of noise emission:

- a. Operation of machineries with high noise levels are prohibited during breaks, noon time and night time, and any extension of operation due to special circumstances must be reported and approved by the relevant department.
- b. Use mechanical equipment with low noise levels or those equipped with sound-proof or muffler facilities as much as possible and efforts must be made to reduce noises at the sources of noise generation.
- c. The entrances and exits for the construction trucks at the construction sites should be arranged at places away from sensitive area.
- d. For high noise-level machineries, proper shielding should be installed as an integrated measure for temporary sound insulation, sound muffling and vibration damping.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

A. Construction Discharge (continued)

2. Waste Gas Emission During Operation

Waste gas emission during operation includes mainly the dust resulted from constructions, the exhaust gas emitted from various construction machineries and transportation vehicles, and organic wastes gas generated during renovation. Dusts mainly come from the process of handling, transportation and piling of construction materials, which result in the raising or spillage of dusts. The exhaust gas produced by the access of various kinds of construction machineries are mainly sulfur dioxide (SO₂) and nitrogen oxide (NOx). Organic waste gases come from toxic gases vaporized from various paints and coatings on plywood boards, fine wood boards, MDF, and particle boards. These gases include formaldehyde, benzene, ethanol, radon, polyvinyl chloride, ethyl benzene, polycyclic aromatic hydrocarbons and the like. To minimize the impact of the dusts to the surrounding atmosphere, the Group has adopted the following measures:

- a. Construction sites should be enclosed 100%, and road surfaces within the construction sites should be 100% hardened.
- b. Certain wetness should be maintained during excavation and drilling process by watering the operation surface; watering should be carried out regularly on loose and dry soil in the construction site; and proper watering should be carried out on dry surface of soil when backfilling the soil in order to prevent formation of dusts.
- c. Dedicated locations should be set up with enclosure for the stacking and storing of building materials and misplacements are not allowed. Unwanted and spoiled materials should be transported away as soon as possible and accumulation of such wastes is not allowed. When not used, sand and soil in the construction site should be 100% covered.
- d. During demolition of constructions, watering should be carried out 100% to suppress dusts.
- e. When not in use, machineries should be turned off to reduce generation of exhaust gas from combustion.
- f. Car wash facilities and ground surface water trench should be set up at the locations of site access and exit for rinsing of transportation trucks with water. Bodies of vehicles leaving the site should be rinsed thoroughly 100% before leaving the site to reduce dirt carried by the vehicles and chassis from scattering on the roads. Soil scattered on roads should be cleaned immediately to reduce dust during operation.
- g. During the construction process, using disposed building materials as fuel is strictly prohibited. Accommodation and canteen facilities should not be set up in construction sites. During the construction period, bare soil in the site should be covered 100% or covered by greenery. When construction is completed, ground space, roads and vegetation previously occupied by the construction should be resumed immediately.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

A. Construction Discharge (continued)

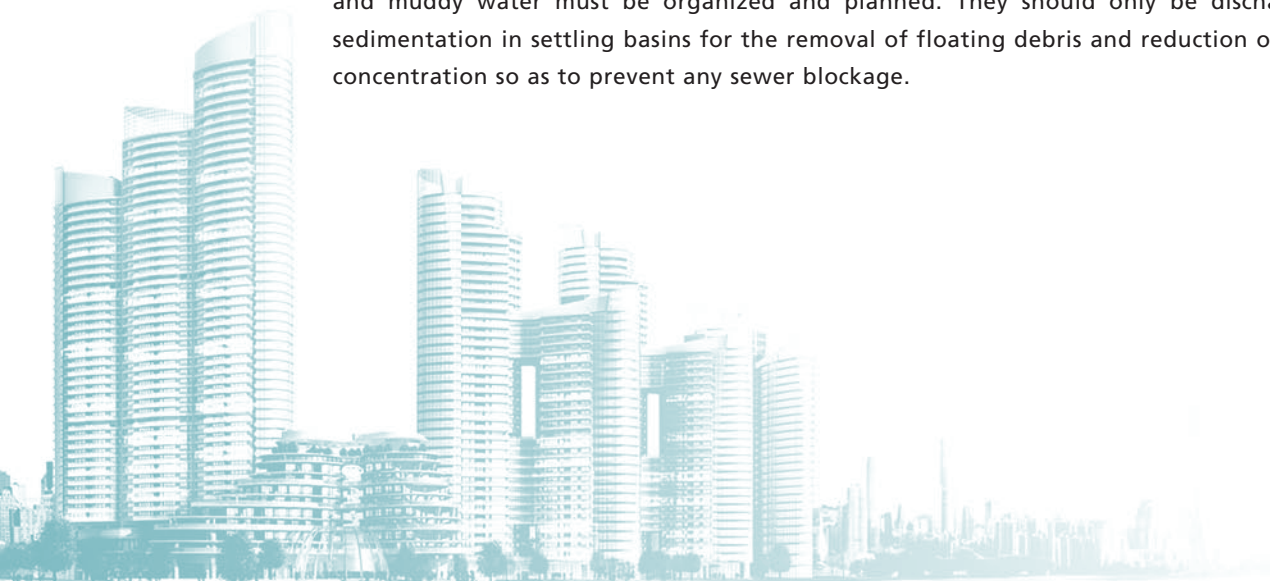
2. Waste Gas Emission During Operation (continued)

- h. Ready mixed concrete must be used for construction projects located on both sides of city roads or within designated areas. Concrete mixers should not be set up on the site to reduce dust pollution.

3. Wastewater Discharged During Operation

Wastewater discharged during operation mainly come from surface runoff of heavy rain, domestic sewage from construction workers and wastes water from rinsing of ground surface. Pollution is reflected mainly by the quantity of suspended solids (SS), dichromate chemical oxygen demand index (COD_{Cr}), biochemical oxygen demand indicator (BOD₅), and ammoniacal nitrogen indicator (NH₃-N) in wastewater. In order to minimize the impact of wastewater discharged during operation and to ensure that the discharged wastewater is in compliance with the requirements of the national standard specified in "Integrated Wastewater Discharge Standard" (《污水綜合排放標準》) (GB12523), the Group has adopted the following prevention measures:

- a. During construction, the construction team must strictly follow the requirements in the "Temporary Provisions for Proper Management and Environmental Protection for Construction Sites" (《建設工程施工場地文明施工及環境管理暫行規定》). The discharge of surface water must be carefully planned, and should not be arbitrarily directed to pollute roads, environment or government facilities.
- b. Wastewater generated during foundation piling work must be treated immediate by paying attention to dredging and discharge management. Pollutants in wastewater generated from washing and rinsing machineries and construction vehicles are mainly suspended solids. The rinsing and washing facilities should be set up at designated locations. The ground surface water ditches should be directed to temporary sedimentation tanks. After sedimentation, the wastewater can be recycled for use to reduce the use of clean water.
- c. Muddy water generated during operation and sludge produced by punching pile drivers and bored piles must not be discharged without treatment, so as not to pollute the site and the surrounding environment. Temporary settling basins should be provided at backfill dumps and at locations where sludge is produced. Discharge of rain water containing sediments and muddy water must be organized and planned. They should only be discharged after sedimentation in settling basins for the removal of floating debris and reduction of sediments concentration so as to prevent any sewer blockage.



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

A. Construction Discharge (continued)

4. Solid Wastes Generated During Construction

Solid wastes generated during construction consist of mainly large quantities of silt, muck, sludge resulted from surface excavation, residual waste construction materials and domestic garbage from workers and wastes generated from renovation including residual wastes such as mortar surface cement, interior and exterior wall coating, plastic, flexible packaging, scrap metal wire, sawdust, etc. In order to reduce the accumulation of solid wastes during the construction period as well as the impact to environment during transportation, the following measures should be taken:

- a. Different types of solid wastes generated from construction should be placed separately.
- b. Domestic garbage should be regularly cleaned and delivered to environmental health department.
- c. Construction wastes that may cause flying dust should be separated with enclosure.
- d. Load only proper quantities of residual mud so as to ensure no spillage nor flying dusts during transportation. The wastes should be only dumped to landfill sites designated by the relevant authorities.
- e. Wastes such as brick rubbles can be piled up in general. Wastes that can be reused, such as wood, bamboo, should be recycled for the conservation of resources.
- f. Spoil grounds selected should not occupy farmlands or be close to rivers or reservoirs. They should be located in low-lying areas, with diversion ditches set up at upstream of the spoil grounds.

B. Use of Resources

Skyfame Group emphasizes the impact of its projects to social development and living standards of the people. From choice of building materials to layout of project design, Skyfame's projects are human-focused and conform to the natural environment. All of the Group's projects-in-progress have inscribed the concept of "Green Construction". A "Green Construction" is a concept that minimizes the use of resources (in terms of energy, land, water and building materials), protects the environment, and minimizes pollution, so as to provide a healthy, useful and highly efficient space for the residents, and buildings that stand harmoniously with the nature.

The Group has been infusing this corporate concept into its construction projects which are in progress, and imposing strict control on these construction works to ensure adherence to the relevant construction regulations of the government. The overall designs of all projects-in-progress focus to fit in the surrounding natural environment and fully utilize the local natural resources. The construction should be sustainable, eco-friendly and integrated into the nature, with high energy efficiency and should not harm the local eco-system. The interior design of the buildings under construction needs to attend to the full utilization of daylight to save energy. The buildings need to create a sense of proximity to the nature, and should be a healthy living environment. By controlling and lowering the exploitation and destruction to natural environment and resources, the Group endeavors to maintain a balance between the demand from and the contribution to the natural environment.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

B. Use of Resources (continued)

1. Conservation and Use of Energy

- a. The thermal designs and HVAC of residential buildings are in compliance with the approved government's requirements, or the requirements published under the "Design Standards for Energy Efficiency of Residential Buildings" (《居住建築節能標準》) ("Standards for Energy Efficiency").
- b. Structural forms, architectural orientations, space between buildings, and proportion of windows to walls are reasonably designed utilizing the natural conditions of the venues, so that the residents can enjoy satisfactory sunlight, ventilation and lighting. Shading facilities should be provided as necessary.
- c. High efficiency lighting sources, high efficiency lighting equipment and accessories such as electronic ballasts with low dissipation are used in public areas and for partial lighting. Other energy conservation measures such as the application of time control or light control in areas with natural lighting are adopted.
- d. Make full use of solar, geothermal and other renewable energy sources according to local climates and resources conditions. The renewable energy used as a percentage of the total energy used for a building should be maintained at over 5%.
- e. Make use of natural lighting and ventilation (directly or indirectly from entrances and exits, open yards, side windows and skylights) in underground area.
- f. Effective heat insulation measures should be adopted with considerations of the buildings' architectural forms and orientations, so as to ensure heat insulation effect in summer.
- g. The renewable energy used as a percentage of the total energy used for a building should be over 10%.



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

B. Use of Resources (continued)

2. Conservation and Use of Water Resources

- a. Water system planning should be devised at the time of project planning stage in order to coordinate, oversee and integrate various water resources.
- b. Take efficient measures to prevent damage or leakage of water pipes.
- c. Use water-saving appliances and equipment to achieve no less than 8% of water saving rate.
- d. Municipal supplied water and groundwater should not be used for landscape purpose. Circulating water supply system should be set up instead.
- e. When using non-traditional water sources, water safety measures should be taken and there should be no adverse effect to human health and the surrounding environment.
- f. Properly design the rainwater runoff channels on ground surface as well as on roof tops to reduce surface runoff, and adopt various methods of infiltration to increase rainwater infiltration.
- g. Non-traditional water sources such as recycled water and rainwater are used for non-potable purposes such as irrigation and car wash.
- h. Use high efficiency and water conserving irrigation methods such as sprinkler irrigation and micro irrigation.
- i. Rainwater collection and utilization schemes are determined logically based on technical and economical comparisons.

3. Conservation and Use of Material Resources

- a. The content of harmful substances in building materials are in line with the requirements of current national standards including "Indoor Decoration and Refurbishing Materials – Limit of Formaldehyde Emission of Wooden Based Panels and Related Finished Products" (《室內裝飾裝修材料人造板及其製品中甲醛釋放限量》) GB18580, "Limit of Ammonia Emission of Concrete Admixture" (《混凝土外加劑中釋放氨的限量》) GB18588, and "Limit of Radioactive Nuclide from Building Materials" (《建築材料放射性核數限量》) GB6566.
- b. The architectural forms are plain and simple, and without large quantities of decorative elements.
- c. Over 75% of total building materials in weight should be produced within 500km of the construction sites.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

B. Use of Resources (continued)

3. Conservation and Use of Material Resources (continued)

- d. Ready mixed concrete should be used for purpose of in situ concrete.
- e. High performance concrete and high strength steels are used as structural building materials.
- f. The solid residual wastes resulted from construction work, old building demolition and site clean-up are classified for different treatments, and materials which can be reused are recovered and recycled.
- g. Under the condition of ensured quality, the use of building materials produced from waste materials should not be less than 30% of similar materials used.
- h. Use self-insulation wall materials for buildings' exterior instead of internal or external wall insulation materials.
- i. Use new wall materials

C. Environment and Natural Resources

Property development involves a number of environmental factors, especially land resources. Property development activities inevitably affect the surrounding environment directly or indirectly. Therefore, conflicts always exist between environmental protection and development construction during the process of property development from land development to completion of projects. To resolve the conflicts and create constructive interactions between the two, property development plans must adopt designs that are friendly to a city's ecosystem, fitting into a city's current situation to avoid over-development, improving the allocation of social resources, conserving a city's resources in its design and layout, employing reasonable designs of building structures and utilizing energy-saving technologies to lower energy consumption.

- a. Facilities established in the construction sites should not damage any local cultural relics, natural water systems, wetlands, farmlands, basic farmlands, and other protected areas.
- b. The locations of construction sites should be free from the threats such as floods, landslides and radon-containing soil. No sources of hazards such as electromagnetic radiation, fire, explosives and toxic substances should be found within the perimeter of the construction sites.
- c. Architectural layouts in residential areas must ensure that requirements of indoor and outdoor sunlight environment, lighting and ventilation are in line with the currently national standards "Code of Urban Residential District Planning and Design" (《城市居住區規劃設計規範》) GB50180 with respect to standard sunlight requirements for residential buildings.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

ENVIRONMENT (continued)

C. Environment and Natural Resources (continued)

- d. Adopt native landscaping by planting appropriate native plants that are accustomed to the local climate and soil conditions. The preferred choices are those that require little maintenance, and are resistant to extreme weather conditions and pests as well as not harmful to human health.
- e. Green rate within the residential district should not be lower than 30%, and public green area per capita should not be less than 1m².
- f. No pollution sources with discharge amount exceeding standards should exist in the residential district.
- g. Specific environmental protection measures during the construction process are developed and implemented for the control of atmospheric pollution, soil pollution, noise pollution, water pollution, light pollution and impact to the surrounding areas resulted from the constructions.
- h. Wind conditions in the residential district should be comfortable for outdoor walking during winter, and with natural ventilation during summer and the transition seasons.
- i. Public service facilities in the residential district are set up according to planning for the district as well as for sharing with the adjacent districts. Integrated building designs are adopted as reasonably necessary.
- j. Environmental noise levels in the residential district should comply with the requirements in "Standards for Acoustic Environmental Quality" (《聲環境質量標準》) GB3096.
- k. Average heat islands intensity during day time in outdoor residential district should not be over 1.5°C.
- l. Landscaping should be carried out according to local climate conditions and the natural distribution of vegetation. Different types of plant such as trees, shrubs and grass combine to form variations in the plant communities, with no less than 3.5 trees on each 100M² of vegetated land.
- m. Water permeable paving should be adopted for non-motorized roads, outdoor parking lots and other hard surface grounds, with landscape greenery providing shades from the sun. The area of water permeable paving should not be less than 50% of outdoor area.
- n. The construction site should be designed according to the original landscape topology.
- o. Underground areas should be reasonably developed and utilized.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY

Employment and Labour Standard

A. Employment

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

As of 31 December 2015, the Group employed 578 staff, of which 234 were undergraduates, representing 40.48% of the Group's total employees. The employees of the Group are relatively young, with 72.66% under 40 years of age. To facilitate the company's needs in face of continuous business growth in recent years, the Company has been running recruitment campaigns, with a focus on new college graduates as well as those having appropriate working experience. The Company was successful in recruiting youthful and energetic employees who have brought new impetus to the Company.

Number of Employees by age-groups and genders

	Gender	Under 30	31-40	41-50	Over 50	2015 Total	2014 Total
Headquarters/ Administration Office	Male	27	53	19	1	100	88
	Female	18	34	10	4	66	61
	Sub-total	45	87	29	5	166	149
Project Operation	Male	37	57	24	3	121	107
	Female	34	18	4	1	57	44
	Sub-total	71	75	28	4	178	151
Property Management	Male	43	40	51	22	156	201
	Female	34	25	11	8	78	68
	Sub-total	77	65	62	30	234	269
2015 Total	Male	107	150	94	26	377	
	Female	86	77	25	13	201	
	Total	193	227	119	39	578	
2014 Total	Male	103	162	103	28		396
	Female	75	64	21	13		173
	Total	178	226	124	41		569

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

A. Employment (continued)

Number of Employee by Region

	Guangzhou	Nanning	Yongzhou	Hong Kong	2015 Total	2014 Total
Headquarters/ Administration Office	156	0	0	10	166	149
Project Operation	48	95	35	0	178	151
Property Management	172	40	22	0	234	269
2015 Total	376	135	57	10	578	
2014 Total	355	95	108	11		569

Employees are engaged in two different business segments: Project Operation and Property Management. Total turnover rate amounted to 40.75%, representing a small increase as compared with 35.66% last year. The increase was mainly due to corresponding deployment of working staff and natural turnover as a result of the Group's retreat from the Yongzhou project. In addition, the outsourcing of the Yongzhou project's security function also has reduced the number of staff, contributing a relatively higher turnover rate in the property management team. 162 employees resigned from the property management company this year, representing 70.74% of the Group's total attrition, and has thus raised the Group's overall employee turnover rate. By contrast, turnover rate in Headquarters/Administration Office and Project Operation segment has slightly improved. 96 of the resigned employees (representing 41.92% of the total attrition, 2014: 52.84%) were under 30, who were young and were easily tempted to move around for new jobs.



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

A. Employment (continued)

Employee Turnover Rate by Age-Group and Region

	Region	Under 30	31-40	41-50	Over 50	Total Attrition	2015	2014
							Turnover Rate	Turnover Rate
							(note)	(note)
Headquarters/ Administration Office	Guangzhou	12	9	5	1	27	18.37%	17.90%
	Hong Kong	0	0	0	0	0	0.00%	18.18%
	Sub-total	12	9	5	1	27	17.14%	17.92%
Project Operation	Guangzhou	1	9	1	1	12	28.57%	10.34%
	Nanning	3	9	2	0	14	17.39%	47.37%
	Yongzhou	3	11	0	0	14	33.33%	23.66%
	Sub-total	7	29	3	1	40	24.32%	28.19%
Property Management	Guangzhou	44	25	11	6	86	48.73%	27.83%
	Nanning	20	2	2	0	24	69.57%	113.33%
	Yongzhou	13	9	20	10	52	128.40%	122.73%
	Sub-total	77	36	33	16	162	64.41%	51.4%
2015 Total Attrition/ Turnover Rate		96	74	41	18	229	39.93%	
2014 Total Attrition/ Turnover Rate		93	50	26	7	176		35.66%

Note: Turnover rate = Total attrition during the year / ((number of employees at the beginning of the year + number of employees at the end of the year) / 2)

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

B. Health and Safety

The Company complies strictly to the PRC's laws and regulations to protect the employee's occupational safety and health. The Company has developed its enterprise occupational health guidelines according occupational health and safety standards including OHSMS (《職業健康安全管理體系》), ISO 9000 (《質量保證體系》) and ISO 14000 (《環境管理體系標準》), for the prevention of occupational diseases, protect workers' health, enhance employees' safety awareness, ensure safety in construction that satisfy both the goals of the enterprise and the needs of the employees. The Company has instructed department supervisors to be fully responsible for the management of occupational safety and health. The project companies' safety supervisors provide safety trainings to employees working at positions that are highly susceptible to occupational diseases, supervise and inspect the use of safety measures, and inspect and rectify the safety pitfalls in workplaces. The Group arranges relevant health checking for employees in positions that are highly susceptible to occupational diseases, and document their health profile. The Group also arranges annual body check for all employees to help identify potential health risks in advance so as to strengthen the employees' health protection. Employees' body check expenses in 2015 amounted to RMB 106,700, representing an increase of 21.12% as compared to 2014.

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

The Group's Projects Management Division organizes internal safety management teams to regularly inspect the safety and incidents prevention measures on the sites of construction-in-progress, the results of which will be reported directly to the Company's management. During the year, the Group has strictly complied with relevant laws and regulations and guidelines, however, an accident with casualty was recorded during the year in a construction project of the Group. As such, the Company has seriously dealt with the PRC contractor and the supervising unit, adopted strict punishment to the management who supervises the PRC contractor, while requesting the co-management, the project management division, the project company, and project engineering department to strengthen and rectify the process and increase the inspection frequency, so as to prevent any safety incidents in the future.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

C. Development and Trainings

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

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

In 2015, the Company has provided 243 training sessions for employees at different levels, with a total of 4,226 participants. These training sessions included internal training totaling 473 hours and external training totaling 213 hours. The total cost amounted to RMB353,000, representing an increase of 10.78% as compared with 2014. The contents of the training programs included:

- To enhance marketing knowledge of the marketing channels and project companies, as well as to improve the professional standard of the marketing team, the Group launched the professional open lecture "innovative marketing" in March 2015. The contents of the lecture included "Core Method of Innovative Marketing", "Fundamental Knowledge of Innovative Marketing" and "Case Studies and Application of Innovative Marketing". Core methods of innovative marketing were introduced, and necessary foundations and behavioral habits were explained. The lectures promoted the marketing knowledge and innovation of the participants;
- For better implementation of various management systems of the Company, strengthening the execution of systems and improving effectiveness of business execution, the Company started four phases of training and examinations known as "Skyfame System Lectures" in March, May, August and November 2015, respectively. The lecture series covered various management systems including development, design, marketing, engineering, finance, contract tender, cost management and integrated management;
- To enhance lecture design and teaching technique of the Company's internal trainers and to promote the effective development of the Company's system and professional knowledge, the Company held the "Producing PPT Training Programs for Internal Trainers" in April 2015. External lecturers were also invited to provide "Course Design and Development" training, in which course objectives, design principles of course outlines and course materials as well as process flow were discussed;

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

C. Development and Trainings (continued)

- For the periodic summary reporting of planned business operation management system and status of implementation, as well as for the promotion of effective implementation, a seminar on development path and planning strategy under the business management system was launched in April 2015. The seminar combined the current situation of the Company and various project cases, examined and discussed on "Standard Project Development Roadmap/Guidelines", "Planning and Management Handbook", "Management of Critical Results Handbook", "Handbook on Managing Meetings", and "Managing Information Reporting and Distribution Handbook";
- To further enhance the management level of construction projects quality, and to promote standardization of engineering techniques and work management in projects, the Company launched a professional open training on engineering quality management in May 2015. Contents of the training include "Guidelines on Work Management of Interior Renovation Projects", "Operation Guide on Professional Survey Techniques" and "Study and Analysis of Company Cases";
- To promote the professional standards of the administrative and secretarial staff of the Company, the Company conducted a training on "Reception Manners of Administrative and Secretarial Staff". External speakers were invited to lecture on business dress codes, reception and communication manners, business manners and business dining etiquette;
- To facilitate the Company's strategic development pace, the overall professional standards of project applications and development as well as relevant departments were enhanced to ensure effective launching of preparatory work including land development, design and marketing. The Company held professional training courses in August 2015 on "land value evaluation and land development case studies". Lecturers with well experience in land investment and development were invited to share their experience in practical cases;
- To optimize the Company's financial planning management, the Company has launched training courses and examinations in September 2015 with respect to financial planning management and ERP system operation. Participants were given in-depth understand of the process flow in financial planning and control, and were able to handle the basic operation procedure of the ERP system; and
- To enhance the staff's ability to avoid and deal with legal risks, the Company held professional training courses and examinations on the new advertising law in November 2015. Professional lawyers were invited to lecture on the legal knowledge relevant to the Company business, these included "Impact of Amendments in New Advertising Law to the Real Estate Industry", "New Over-the-counter Market Practices", "Practices of the New Mode", etc.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

D. Incentives and Recognitions

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

E. Recruitment and Retaining Talents

To satisfy the needs arising from the accelerated growth of business of the Company, the Company has been conducting recruitment campaigns online. To strengthen and consolidate the Company's talent pool, the Company has organized open recruitment campaigns in January and March 2015. Appropriate candidates of various talents were selected to participate in the second round of interview. The Company also organizes campus career talks regularly in different institutes. 15 excellent candidates were recruited from the graduate class of 2015, who helped in enlarging the Company's talents pool for relevant job vacancies.

To resolve the Group's problems such as lack of talents to fill key positions, loss of talents on key positions and lack of trained talents, the Company has prepared the "Proposal for Formation of Corporate Echelon Talent Pool" in 2014, for the improvement of the Group's human resources allocation, optimization of talent reserve mechanism, so as to implement a succession plan and a talent reserve plan for key positions.

The Company has also established the "Employee Share Options Scheme" in which share options are granted to the employees so that the results and performance of the Company are linked to the employees' individual performance. The program aims to push forward the Group's long term objectives by rewarding employees who have contributed in the company for a long period of time and acting as a means to recruit and retain outstanding people. During the year, the Company has granted 73,000,000 share options to eligible employees to reward their contributions to the Group.



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

SOCIETY (continued)

Employment and Labour Standard (continued)

F. Employee's Relation

To enrich the leisure times and cultural experience of the employees, the Company has organized a Chinese New Year gathering in February and Mid-Autumn talent contest in September. After which, the Company also hosted cultural activities such as micro-photo contest and themed-writing with the title "My appointment with Peninsula". These activities provided a platform for employees to demonstrate their talents and characters. They also enhanced the interactions and connections between employees, as well as the communication between the operation headquarters, project companies and the property management companies, thus bringing a sense of belonging and team spirits to the staffs.

Moreover, in order to enhance the team building and relationships between the staffs, the Company organizes annual country-tours and project-visits to foster connections between the employees of different management centers and project companies. This May and June, the Company organized a three-day country tour for its staffs to promote communication and interaction between different departments. This November, the Company also hosted a "Tianyu Family's Fun Sports Day". The employees of Guangzhou operation headquarters, Guangzhou directly-managed projects and the property management company are invited to bring along the families to join the event. The Fun Sports Day has been a great boost in the sense of belongings and entrepreneurial unification in the staff and highlights the "Tianyu Family" corporate culture.

G. Labour Standard

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



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

OPERATIONS

H. Supply Chain Management

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

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



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

OPERATIONS (continued)

I. Product Liability

1. *Skyfame's Mission:*

The name "Skyfame" means "Harmony with Nature, Reputation on Earth". Since the establishment of Skyfame, it has been committing to developing quality real estates and striving for excellence. From residential to commercial buildings, including Skyfame Tower (now known as HNA Tower) and Guangzhou Skyfame Westin Hotel (now known as Guangzhou HNA Westin Hotel) which were delivered in 2007, Skyfame City in Guiyang and the Tianyu Huafu Project in Yongzhou which were delivered for occupancy from 2010 to 2015, as well as every other project currently under construction, Skyfame has been following the development needs of the city and the society, and has won the acclaim of the industry and the society. With honesty and integrity as its principle and quality service as its management objectives, the Company has built up its brand and earned the support from customers in all regions with its quality products, market-oriented approach and integrity. During its development over last decades, the Company received acclamations from project related regional governments. Please see "Major Honors and Awards" in Cooperate Profile for recent achievements of the Company.

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

2. *Monitoring of Product Quality*

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



ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

OPERATIONS (continued)

I. Product Liability (continued)

2. *Monitoring of Product Quality (continued)*

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

3. *Customers' Feedback*

To elevate the standard of the Company's products, services, and management, and to enhance product quality and service, it is important to ensure that customers' complaints are resolved in a timely, accurate and reasonable manner. In order to refine the company's products and service continuously, the Company has set up the "Codes for Customers' Complaints Handling". The complaint channels include the Group's Customer Service Division (with complaint and suggestion mail boxes (tousu@tianyudc.com and tydc110@163.com) and hotlines ((86-20) 2208 2803 and 2208 2827)), the sales department and property management of the project companies and the Company's website (www.tianyudc.com).

J. Anti-corruption

The Group has been protecting all its business from any illicit behavior in its operating environment. Honesty, integrity and fairness are the core values of the Group which all employees are required to fulfill and safeguard. In order to manifest such values, the "Staff Manual" of the Group sets out all disciplinary actions against offenders of anti-corruption regulations. The provision or recipient of bribery or interests (including commissions, handlings, rebates, rewards, vouchers, gifts, etc.) in any forms from business-related units are deemed as serious violations of the Company's regulation. The Company shall rescind the employment contract of the offender and may seek relevant economic and legal responsibilities from the offender.

The Company also prescribes its contract management procedures, which strictly prohibit business units and its staffs from obtaining direct or indirect monetary benefits from contracted parties through illicit means such as bribery and rebate when performing contracts.

Customers or business units may report any of our employees' violation of anti-corruption regulations to the Company's Complaints and Suggestions email box (tousu@tianyudc.com and tydc110@163.com) and hotline((86-20) 2208 2803 and 2208 2827)), or complaint through the Company's website (www.tianyudc.com).

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY REPORT

COMMUNITY

K. Community Activities

The Group's property management service has been classified as first class. To better understand the community's degree of satisfaction towards the service provided by the property management and obtain a deeper understanding of the needs of the community, the property management company conducts a "Customers' Satisfaction Survey" annually, the results of which are above the industry average. Through the survey, the Company understands the strengths and weaknesses of the service provided and corresponding deficiencies can be improved and the day-to-day inspection system can be optimized to elevate customers' satisfaction.

The property management company seeks to promote better relationships and communication between itself and the residents, and show the caring to the residents under its management from the Company. The property management company has organized an array of activities for the members of these communities. These included the 1st of June Children's Day, clown show, Free Salon, distribution of rice dumplings during Dragon Boat Festival, Mid-Autumn Festival celebration and cycling activities. These activities won strong support from the residents who enjoyed the activities with fun and laughter.

With a desire to participate more in the communities where the Group has established, the Group has been contributing with full effort to all the major events promoted by the local governments. In response to "Beautiful Nanning", a major event organized by the Nanning Municipal Government to promote rural construction, the Group participated in the event through donation. An amount of RMB320,000 was donated to the Nanning Municipal Government as a support for the event and a means to contribute to the community.



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the 2015 financial statements, in compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) except for the following deviations:

Code Provision A.2.1 – Chairman and Chief Executive

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

Explanation on the deviation is elaborated below under the heading of “Segregation of the Management of the Board and the Management of the Group’s Business”.

Code Provision A.2.7 – Chairman Meeting with Non-executive Directors (including Independent Non-executive Directors)

Our Chairman of the Board, Mr. YU Pan, regularly holds meeting with the non-executive directors and independent non-executive directors (without the executive directors present) in physical meeting held in December each year. However, the scheduled meeting in December 2015 could not cope with this agenda because of the overloaded agendas. The Board has held a meeting for such purpose in a meeting held on 18 March 2016 and will schedule another meeting to be held in Date 2016.

Code Provision E.1.2 – Chairman Attending Annual General Meeting

Mr. YU Pan, the Chairman of the Board, was unable to attend the annual general meeting held on 9 June 2015 (the “**AGM**”) due to other business engagements. Mr. WEN Xiaobing, the Deputy Chief Executive Officer, acted as chairman of the AGM which was properly convened to ensure effective communication with the shareholders of the Company at the AGM.

BOARD OF DIRECTORS

As at 31 December 2015, the Board comprised eight Directors as follows:

Executive Directors

Mr. YU Pan (*Chairman and Chief Executive Officer*)

Mr. WEN Xiaobing (*Deputy Chief Executive Officer*)

Mr. JIANG Jing (*appointed on 1 July 2015*)

Mr. WONG Lok

Non-executive Director

Mr. ZHONG Guoxing

Independent Non-executive Directors

Mr. CHOY Shu Kwan

Mr. CHENG Wing Keung, Raymond

Ms. CHUNG Lai Fong

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

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

The Board held seven meetings in 2015. The record of attendance of each Director is as follows:

Name of Director	Number of Board Meetings Attended/Held	Attendance Rate	Attended the annual general meeting on 9 June 2015
<i>Executive Directors</i>			
Mr. YU Pan (<i>Chairman and Chief Executive Officer</i>)	7/7	100%	–
Mr. WEN Xiaobing (<i>Deputy Chief Executive Officer</i>)	6/7	85.71%	✓
Mr. JIANG Jing (<i>appointed on 1 July 2015</i>)	3/5	60%	–
Mr. WONG Lok	6/7	85.71%	–
<i>Non-executive Director</i>			
Mr. ZHONG Guoxing	2/7	28.57%	–
<i>Independent Non-executive Directors</i>			
Mr. CHOY Shu Kwan	7/7	100%	✓
Mr. CHENG Wing Keung, Raymond	5/7	71.43%	✓
Ms. CHUNG Lai Fong	6/7	85.71%	✓
Overall Attendance Rate		77.78%	57%

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

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

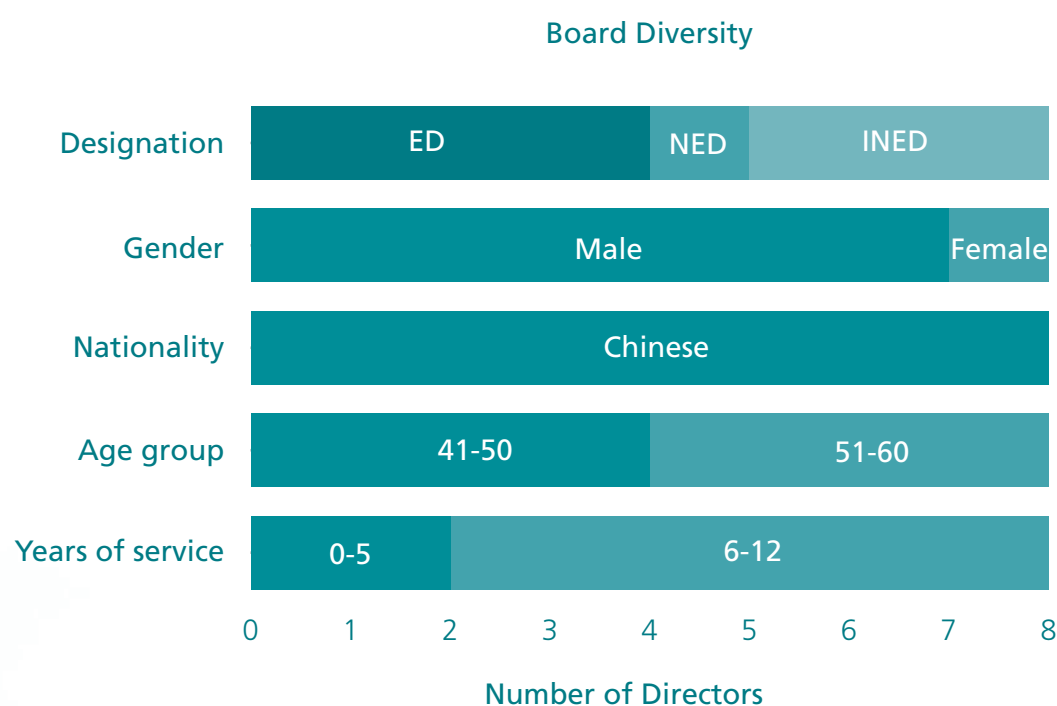
The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities of the Group.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

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



ED: Executive Director

NED: Non-executive Director

INED: Independent Non-executive Director

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN THE CONSOLIDATED FINANCIAL STATEMENTS

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

DIRECTORS' SECURITIES TRANSACTIONS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company has provided resources and supports to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the year ended 31 December 2015, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT (continued)

The training each Director received during the year ended 31 December 2015 is summarized as below:

Name of Director	Reading materials regarding regulatory update and corporate governance matters	Attending seminars/in-house workshops relevant to the Company's business, Listing Rules compliance, regulatory and statutory updates
<i>Executive Directors</i>		
Mr. YU Pan (<i>Chairman and Chief Executive Officer</i>)	✓	✓
Mr. WEN Xiaobing (<i>Deputy Chief Executive Officer</i>)	✓	✓
Mr. JIANG Jing (<i>appointed on 1 July 2015</i>)	✓	–
Mr. WONG Lok	✓	–
<i>Non-executive Director</i>		
Mr. ZHONG Guoxing	✓	–
<i>Independent Non-executive Directors</i>		
Mr. CHOY Shu Kwan	✓	–
Mr. CHENG Wing Keung, Raymond	✓	✓
Ms. CHUNG Lai Fong	✓	✓

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS (continued)

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

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

- (i) to develop, review and monitor the Group's policies on corporate governance and compliance with legal and regulatory requirements;
- (ii) to review and monitor the training and continuous professional development of directors;
- (iii) to develop, review and monitor the code of conduct applicable to the employees and Directors; and
- (iv) to review the Group's compliance with the corporate governance code and disclosure requirements in the Corporate Governance Report.

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

REMUNERATION COMMITTEE

As at 31 December 2015, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

The Remuneration Committee held two meetings in March and June 2015 and all the members attended the meetings. The matters discussed included (i) the review of the remuneration policy of the Group's directors and senior management; (ii) the review of incentive bonus paid to directors and senior management for 2014; and (iii) the remuneration proposal of a newly appointed director.

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

1. to make recommendations to the Board on the overall remuneration policy structured for all directors and senior management;
2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved;
3. to make recommendations to the Board on the remuneration of individual executive director and senior management;
4. to make recommendations to the Board on the remuneration of non-executive directors;

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (continued)

5. to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment; and
6. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct and removal of directors.

NOMINATION COMMITTEE

As at 31 December 2015, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The Nomination Committee held two meetings in March and June 2015 and all members attended. The matters discussed included (i) the review of the size, structure and composition of the Board; (ii) the assessment of the independence of independent non-executive directors; (iii) the recommendation of retiring Directors for re-election in 2015 Annual General Meeting; and (iv) the recommendation of a newly appointed director.

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

1. to set up the fundamental and objective standards required from directors;
2. to select or make recommendations to the Board on the procedures of appointment of directors, and the selection from individuals nominated for directorship;
3. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Group's corporate strategies;
4. to assess the independence of independent non-executive directors;
5. to make recommendations to the Board on the appointment or re-appointment of directors and succession plan for directors, in particular the chairman and the chief executive;
6. to review and approve the policy on part-time work performed for organisations outside the Group by directors and senior management; and
7. to formulate board diversity policy taking into account of gender, age, tenure, culture, industry experience, educational and professional background required on the Board.

AUDIT COMMITTEE

As at 31 December 2015, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (continued)

The Audit Committee held three meetings in March, August and December 2015 in which all members attended. The matters discussed in the meetings included: (i) reviewing the financial statements of the Company for the year ended 31 December 2014 and the six months ended 30 June 2015 before submission to the Board for approval; (ii) considering the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) reviewing the effectiveness of the Group's internal controls system with discussion with the Chief Internal Auditor; and (iv) reviewing the 2015 work plan of Internal Audit Department; and (v) reviewing the status report of the Risk Management Committee in respect of their work done in 2015. The representatives of the external auditor were present at the meetings held on 11 December 2015 and 20 March 2015 and discussed with the committee members, amongst the other agendas, the scope of audit and presented their findings on major issues to the committee members on the audit of the financial statements for the year ended 31 December 2014. Both the annual results for the year ended 31 December 2014 and the interim result for the six months ended 30 June 2015 have been reviewed by the Audit Committee before presenting to the Board for approval.

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

1. to review the integrity of accounts and financial reporting procedures;
2. to review and oversee the effectiveness of internal control systems;
3. to appoint external auditors and assess their qualifications, independence and performance; and
4. to review periodically the Company's and the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

AUDITORS' REMUNERATION

BDO Limited was re-appointed by the shareholders as the Company's auditor during 2015. Their engagement of the audit for 2015 was reviewed and approved by the Audit Committee on a meeting held on 11 December 2015.

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

Nature of service	Fees (Reminbi)
Audit services	
– Current year	793,000
Non-audit services (<i>note</i>)	
– Due diligence reports	309,000
– Disbursements	34,000
TOTAL	1,136,000

Note: The services provided was for the due diligence of a proposed acquisition of a company.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

The 2016 annual general meeting will be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong•Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 30 June 2016 at 3:00 p.m.*

SHAREHOLDERS' RIGHTS

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

Rights to convene a special general meeting

Pursuant to bye-law 58 of the Bye-laws, members of the Company, holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of each requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Procedures for putting forward proposals at shareholders' meeting

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

- (a) to give to members of the company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and
- (b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

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

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

Company's contact details

For general enquires:

Shareholders and other stakeholders may send their enquiries, concerns and requisitions to the Board by addressing them to (i) the company secretary of the Company at the principal place of business in Hong Kong at Unit 1401, 14/F., AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com or (ii) the customer officer at the head office in Guangzhou at 33/F., HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, the PRC (Postage code: 510610), or by telephone to (86 20) 2208 2888, or by fax to (85 20) 2208 2777.

For suggestions and complaints:

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

The bye-laws of the Company have not been amended since 8 June 2009. In order to bring the constitution of the Company in line with amendments made to those currently applicable laws of Bermuda and the Listing Rules and to incorporate certain housekeeping matters, the Company has adopted its amended and restated bye-laws by special resolution passed by the shareholders of the Company at annual general held on 9 June 2015 (the “2015 AGM”). Further at the 2015 AGM, the shareholders of the Company have approved the Company’s adoption of its current Chinese name “天譽置業(控股)有限公司” as the secondary name of the Company. Details of the adoption of the Company’s amended and restated bye-laws and the Company’s Chinese name as its secondary name are disclosed in the Company’s circular dated 27 April 2015.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining sound and effective risk management and internal control systems of the Group. The management is responsible for designing a system of well-defined policies, controls and procedures which are executed from time to time. The Chief Internal Auditor and risk management team report to the Board regularly on the effectiveness of these control systems.

Internal Audit Department

The internal audit department is the designated operating unit set up in the Group which play a dominating role to ensure the internal control and risk management systems are functioning. The Group’s system of internal control includes a defined management structure with clear lines of reporting, limits of authority that are designed to help the management team to carry out the daily management functions for the accomplishment of the Group’s business strategies. The internal audit department plays an important lead in the development of internal control systems of the Group that safeguard its assets against unauthorised use or disposition, maintain proper accounting records of reliable financial information, and comply with relevant laws and regulations. The internal control systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and to mitigate failure in material aspects in the Group’s operations.

Risk Management Committee

The Board set up the Risk Management Committee in December 2014. The Risk Management Committee comprises one executive director, Mr. WEN Xiaobing and three independent non-executive directors, namely Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. The committee delegates its routine monitoring function to the risk management team which assists the management to develop systems to highlight risks and controls to alleviate risks. The risk management team consists of a risk management officer and the head of the internal audit department who report to the committee on a regular basis as to how the risk management work are carried out by the management and key risk factors highlighted by management are addressed to the senior management. During 2015, the risk management team has identified significant risk factors and was working with the senior management on the development of controls to avoid or alleviate risks.

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

1. to monitor and review the risk management system and advise to the Board about the effectiveness of and improvements to be made to the existing system;
2. to provide guidelines to the management on risk management and set up procedures to unveil, assess and manage material risk factors; and ensure management discharges its responsibility to implement an effective risk management system;

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT (continued)

Risk Management Committee (continued)

3. to review the internal control policies associated with the management of risks;
4. to analyse and evaluate those high risks identified by the risk management team and report to the Board with the findings of deficiencies of the existing risk controls and recommendations on improvements;
5. to ensure the risk management is embedded in the structure and management culture across all operating units within the organization;
6. to conclude and report annually to the Board the effectiveness of the risk management system.

Regular Review of the Risk Management and Internal Control Systems

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

The Risk Management Committee held one meeting in September 2015 seated with the risk management team to review the risk factors highlighted by management during the year. These risk factors were discussed in the meeting and the Risk Management Committee agreed on key concerns that are to be drawn to its attention, based on the level of risks involved in each risk factor. The Risk Management Committee also approved the 2016 work plan of the risk management team which emphasized on the design and development of controls to counter those high level risks that have been agreed upon with the management.

DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the section "Management Discussion and Analysis" on pages 8 to 20 and Environmental and Social Responsibility Report on pages 21 to 40 of this annual report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2015. Details of the Company's relationships with its employees, suppliers and customers that have a significant impact on the Group and on which the Group's success depends are set out in Environmental and Social Responsibility Report under the section headed "Society" in paragraph F (Employee's Relationship), and the section headed "Operation" in paragraphs H (Supply Chain Management) and I.3 (Customers' Feedback).

The Group has strictly complied with relevant laws and regulations which have a significant impact on the operations of the Group during the year. In this regard, the Company has retained an in-house legal consultant and outsourced legal advisers in the PRC to provide advices on legal matters and, when necessary, will consult external lawyers of other territories in contemplated transactions.

SEGMENT INFORMATION

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 63.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015.

DONATIONS

Charitable and other donations made by the group during the year amounted to RMB320,000.

PRINCIPAL PROPERTIES

Details of the Group's principal properties under development, properties held for sale and investment properties are set out in notes 23, 24 and 18 to the financial statements.

DIRECTORS' REPORT

SHARE ISSUED IN THE YEAR

There was no movement in the share capital of the Company during the year ended 31 December 2015.

Details of the Company's share capital during the year are set out in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2015, the Company's distributable reserves amounted to a deficiency of RMB369.7 million (net of the Company's contributed surplus of RMB16.1 million). Thus, the Company does not have reserve available for cash distribution and/or distribution in specie as computed in accordance with generally accepted accounting principles of Hong Kong. Nonetheless, the Company's share premium account in the amount of approximately RMB1,507.2 million can be distributed to shareholders of the Company in the form of fully paid bonus shares in accordance with Section 40 of the Companies Act 1981 of Bermuda.

EQUITY LINKED AGREEMENTS

During the year, the Company entered into the following agreements relating to the issue of equity linked instruments:-

(a) Convertible Bonds

Pursuant to a subscription agreement entered into on 3 July 2015 which was completed on 23 July 2015, the Company issued convertible bonds in an aggregate principle amount of HK\$40,000,000 (the "**Convertible Bonds**"). The Convertible Bonds bear interest at the rate of 10% per annum and is payable every three (3) months. Pursuant to the terms and conditions of the Convertible Bonds, the convertible bondholders have the right to convert all or any part of the principle amount of the Convertible Bonds into shares of the Company at an initial conversion price of HK\$1.036 per share (subject to adjustment) at any time on and after its issue date up to its maturity date. The Convertible Bonds has a term of two (2) years from the issue date extendable for a further two (2) years by the convertible bondholders. Based on the initial conversion price, the maximum number of ordinary shares to be issued upon exercise of conversion rights is 38,610,038 share of the Company. There has been no conversion up to 31 December 2015. The net proceeds received from the issue of the Convertible Bonds was approximately HK\$37,000,000 which was used to repay partially a short-term unsecured loan bearing interests higher than the Convertible Bonds. The Directors consider that the issue of Convertible Bonds reduces the interest expense of the Group and, in the event of conversion by the convertible bondholder(s), enlarge the equity base of the Company.

(b) Share Options

The share option scheme adopted on 4 August 2005 (the "**2005 Scheme**") expired on 3 August 2015. The Company has adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**") to continue to provide incentives and rewards to eligible participants who are directors of the Company and employees of the Group.

On 26 June 2015, 73,000,000 share options were granted to eligible participants under the 2015 Scheme of which 11,000,000 share options were granted to directors of the Company. In addition, during the year ended 31 December 2015, (i) 29,089,079 share options granted under the 2005 Scheme lapsed upon the expiry of the exercise period and (ii) 1,000,000 share options granted under the 2015 Scheme lapsed due to resignation of a grantee. There were in total 89,828,791 share options outstanding as at 31 December 2015.

Details of the share options scheme are set out in note 38 to the financial statements.

DIRECTORS' REPORT

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 53.1% and 78.8%, respectively, of the Group's total purchases for the year.

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

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

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

DIRECTORS AND THEIR SERVICE CONTRACTS

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

Executive Directors

Mr. YU Pan (*Chairman and Chief Executive officer*)

Mr. WEN Xiaobing (*Deputy Chief Executive Officer*)

Mr. JIANG Jing (*appointed on 1 July 2015*)

Mr. WONG Lok

Non-executive Director

Mr. ZHONG Guoxing

Independent Non-executive Directors

Mr. CHOY Shu Kwan

Mr. CHENG Wing Keung, Raymond

Ms. CHUNG Lai Fong

In accordance with the Bye-law 83(2) of the Company's amended and restated bye-laws (the "Bye-laws"), Mr. Jiang Jing, will retire from office at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

In accordance with Bye-law 84(1) of the Bye-laws, Mr. WEN Xiaobing, Mr. WONG Lok and Mr. CHOY Shu Kwan will retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

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

DIRECTORS' REPORT

DIRECTORS' AND CONTROLLING SHAREHOLDER'S MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Except as those disclosed in the section of "Connected Transactions" of the report hereinafter, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its holding company was a party and in which a director and/or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out in section headed "Brief Biographical Details of Directors and Senior Management" on pages 5 to 7.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2015, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares (note 1)	Approximate shareholding percentage (note 2)
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	1,587,168,407 (long)	71.61%

Notes:

- These Shares comprised (i) 141,504,000 existing Shares; and (ii) 1,445,664,407 existing Shares held directly by Grand Cosmos Holdings Limited ("Grand Cosmos"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("Sharp Bright"), the entire issued share capital of which was held by Mr. YU Pan. The 1,587,168,407 Shares previously charged in favour of Magic Sky Enterprises Holdings Inc. ("Magic Sky") by way of a share charge dated 10 October 2013 was released on 11 August 2015 following Grand Cosmos' full repayment of a loan granted by Magic Sky. Simultaneously, warrants issued to Magic Sky to purchase Shares from Grand Cosmos in aggregate of HK\$30,000,000 at a purchase price of HK\$0.57497 for 52,176,635 Shares was redeemed by Grand Cosmos on 11 August 2015.
- For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2015.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

(b) Interests in underlying Shares arising from share options

As at 31 December 2015, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme and 2015 Scheme:

Name of Director	Exercise price (HK\$)	Exercise period	Number of underlying Shares	Approximate shareholding percentage (note 3)
Mr. WEN Xiaobing	0.6714	11 August 2012 to 10 August 2021 (note 1)	5,213,097	0.24%
	1.0820	26 June 2016 to 25 June 2025 (note 2)	8,000,000	0.36%
Mr. CHOY Shu Kwan	1.0820	26 June 2016 to 25 June 2025 (note 2)	1,000,000	0.05%
Mr. CHENG Wing Keung, Raymond	1.0820	26 June 2016 to 25 June 2025 (note 2)	1,000,000	0.05%
Ms. CHUNG Lai Fong	1.0820	26 June 2016 to 25 June 2025 (note 2)	1,000,000	0.05%

Notes:

- First tranche (33.33% of the options granted) is exercisable from 11 August 2012 to 10 August 2021;
 - Second tranche (33.33% of the options granted) is exercisable from 11 August 2015 to 10 August 2021; and
 - Third tranche (33.34% of the options granted) is exercisable from 11 August 2018 to 10 August 2021;
- First tranche (14.3% of the options granted) is exercisable from 26 June 2016 to 25 June 2025;
 - Second tranche (14.3% of the options granted) is exercisable from 26 June 2017 to 25 June 2025;
 - Third tranche (14.3% of the options granted) is exercisable from 26 June 2018 to 25 June 2025;
 - Fourth tranche (14.3% of the options granted) is exercisable from 26 June 2019 to 25 June 2025;
 - Fifth tranche (14.3% of the options granted) is exercisable from 26 June 2020 to 25 June 2025;
 - Sixth tranche (14.3% of the options granted) is exercisable from 26 June 2021 to 25 June 2025; and
 - Seventh tranche (14.2% of the options granted) is exercisable from 26 June 2022 to 25 June 2025.
- For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2015.

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2015, Mr. YU Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely 綠景控股股份有限公司 (Lvjing Holding Co., Ltd.) which is engaged in the residential real estate development business in the mass market in the PRC. Save as the aforesaid, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

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

SUBSTANTIAL SHAREHOLDERS

At 31 December 2015, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares	Approximate shareholding percentage (note 2)
Sharp Bright	Interest of controlled corporation	1,445,664,407 (long) (note 1)	65.22%
Grand Cosmos	Beneficial owner	1,445,664,407 (long) (note 1)	65.22%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

1. The 1,445,664,407 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 1,445,664,407 Shares together with 141,504,000 Shares held by Mr. YU Pan previously charged in favour of Magic Sky by way of a share charge dated 10 October 2013 was released on 11 August 2015 following Grand Cosmos' full repayment of loan granted by Magic Sky. Simultaneously, warrants issued to Magic Sky to purchase Shares from Grand Cosmos in aggregate of HK\$30,000,000 at a purchase price of HK\$0.57497 for 52,176,635 Shares was redeemed by Grand Cosmos on 11 August 2015.
2. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,216,531,175 Shares in issue as at 31 December 2015.

Save as disclosed above, as at 31 December 2015, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated in note 45 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2015 which was significant in relation to the business of either the Group or has any material personal interest.

RETIREMENT BENEFIT SCHEMES

Particular of the retirement benefits schemes of the Group are set out in note 40 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 150.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

AUDITOR

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

On behalf of the Board

YU Pan

Chairman

Hong Kong, 18 March 2016

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 149, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its 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 requirements of the Hong Kong Companies Ordinance.

BDO Limited

Certified Public Accountants

CHAN Wing Fai

Practising Certificate Number P05443

Hong Kong, 18 March 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	7	306,321	157,870
Cost of sales and services		(272,393)	(123,879)
Gross profit		33,928	33,991
Other income and gains, net		1,402	5,505
Sales and marketing expenses		(46,000)	(23,087)
Administrative and other expenses		(137,516)	(101,361)
Unrealised exchange loss		(69,026)	(972)
Fair value changes in investment properties	18	6,736	(38,822)
Write-down of properties under development/properties held for sale	23, 24	(20,024)	(38,759)
Gain from bargain purchase		–	1,600
Fair value changes in derivative financial asset/liabilities		2,632	2,245
Loss on disposal of subsidiaries, net of tax		–	(15,830)
Finance costs	8	(1,813)	(1,871)
Finance income	8	21,198	9,035
Loss before income tax	9	(208,483)	(168,326)
Income tax (expense)/credit	13	(23,781)	8,346
LOSS FOR THE YEAR		(232,264)	(159,980)
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		(891)	(325)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(233,155)	(160,305)
Loss for the year attributable to:			
– Owners of the Company	14	(211,769)	(141,252)
– Non-controlling interests		(20,495)	(18,728)
		(232,264)	(159,980)
Total comprehensive income for the year attributable to:			
– Owners of the Company		(212,660)	(141,577)
– Non-controlling interests		(20,495)	(18,728)
		(233,155)	(160,305)
Loss per share – Basic and diluted	15	(RMB0.096)	(RMB0.064)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	17	262,725	271,993
Investment properties	18	570,058	556,533
Properties under Tianhe Project	19	–	777,090
Goodwill	20	13,554	13,554
Derivative financial asset	33	37	–
Consideration receivable	22	–	105,000
		846,374	1,724,170
Current assets			
Properties under development	23	6,159,277	3,828,284
Properties under Tianhe Project	19	786,168	–
Properties held for sale	24	177,850	125,526
Consideration receivable	22	105,000	–
Loan to a non-controlling shareholder of a subsidiary	26	20,400	–
Trade and other receivables	27	495,974	467,037
Short-term investments	28	460,000	244,000
Restricted and pledged deposits	29	922,729	334,844
Cash and cash equivalents	30	383,255	201,105
		9,510,653	5,200,796
Current liabilities			
Trade and other payables	31	1,200,733	228,774
Properties pre-sale deposits		3,710,375	1,461,340
Bank and other borrowings – current portion	33	2,013,166	1,305,610
Derivative financial liabilities – current portion	33	–	32
Consideration from disposal of Tianhe Project – current portion	34	990,360	–
Income tax payable		5,378	64,971
		7,920,012	3,060,727
Net current assets		1,590,641	2,140,069
Total assets less current liabilities		2,437,015	3,864,239

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	33	746,656	969,217
Derivative financial liabilities – non-current portion	33	12,573	–
Consideration from disposal of Tianhe Project – non-current portion	34	–	990,360
Deferred tax liabilities	35	168,781	169,048
		<u>928,010</u>	<u>2,128,625</u>
Net assets		<u>1,509,005</u>	<u>1,735,614</u>
Capital and reserves			
Share capital	36	21,068	21,068
Reserves	37	1,482,872	1,688,986
Equity attributable to owners of the Company		<u>1,503,940</u>	<u>1,710,054</u>
Non-controlling interests		<u>5,065</u>	<u>25,560</u>
Total equity		<u>1,509,005</u>	<u>1,735,614</u>

On behalf of the Board

YU Pan
Director

WEN Xiaobing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company												Non-controlling interests	Total
	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/capital reserve	Retained profits	Sub-total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	21,068	1,507,182	16,116	13,505	34,499	(293,095)	6,471	(87)	7,351	536,971	1,849,981	75,668	1,925,649	
Loss for the year	-	-	-	-	-	-	-	-	-	(141,252)	(141,252)	(18,728)	(159,980)	
Other comprehensive expenses	-	-	-	-	-	-	-	(325)	-	-	(325)	-	(325)	
Total comprehensive expenses for the year	-	-	-	-	-	-	-	(325)	-	(141,252)	(141,577)	(18,728)	(160,305)	
Transfer among reserves	-	-	-	-	-	-	-	-	(7,351)	7,351	-	-	-	
Arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	112	112	
Disposals of subsidiaries	-	-	-	-	-	-	-	-	743	-	743	(31,492)	(30,749)	
Recognition of equity-settled share-based payment expenses	-	-	-	907	-	-	-	-	-	-	907	-	907	
Reallocation of lapsed options from share-based payment reserve to retained profits	-	-	-	(2,260)	-	-	-	-	-	2,260	-	-	-	
At 31 December 2014 and 1 January 2015	21,068	1,507,182	16,116	12,152	34,499	(293,095)	6,471	(412)	743	405,330	1,710,054	25,560	1,735,614	
Loss for the year	-	-	-	-	-	-	-	-	-	(211,769)	(211,769)	(20,495)	(232,264)	
Other comprehensive expenses	-	-	-	-	-	-	-	(891)	-	-	(891)	-	(891)	
Total comprehensive expenses for the year	-	-	-	-	-	-	-	(891)	-	(211,769)	(212,660)	(20,495)	(233,155)	
Recognition of equity-settled share-based payment expenses	-	-	-	6,546	-	-	-	-	-	-	6,546	-	6,546	
Reallocation of lapsed options from share-based payment reserve to retained profits	-	-	-	(8,122)	-	-	-	-	-	8,122	-	-	-	
At 31 December 2015	21,068	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,503,940	5,065	1,509,005	

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Net cash from/(used in) operating activities	39	158,130	(1,114,016)
Investing activities			
Interest received		22,880	2,411
Net cash inflow arising from the acquisition of subsidiaries		–	7,541
Disposal of subsidiaries, net of cash disposed of		–	150,556
Purchase of property, plant and equipment		(2,949)	(9,038)
Acquisition of short-term investments		(908,000)	(244,000)
Disposal of short-term investments		692,000	–
Increase in restricted and pledged deposits		(587,885)	(284,231)
Net cash used in investing activities		(783,954)	(376,761)
Financing activities			
New bank and other borrowings		2,360,401	1,994,587
Repayment of bank and other borrowings		(1,530,852)	(590,608)
Loan advanced to a non-controlling shareholder of a subsidiary		(20,400)	–
Repayment of loans from non-controlling shareholders of a subsidiary		–	(12,542)
Loan advanced from a related company		–	30,000
Repayment of loan advanced from a related company		–	(30,000)
Net cash from financing activities		809,149	1,391,437
Net increase/(decrease) in cash and cash equivalents		183,325	(99,340)
Effect of foreign exchange rate changes		(1,175)	(71)
Cash and cash equivalents at beginning of year		201,105	300,516
Cash and cash equivalents at end of year	30	383,255	201,105

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

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

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

(a) Adoption of new/revised HKFRSs – effective 1 January 2015

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

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

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. They include amendments to HKAS 16 Property, Plant and Equipment to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The adoption of the amendments to HKAS16 has no impact on these financial statements as the Group did not adopt revaluation model on property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2015 (continued)

Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

The adoption of the amendments has no impact on these financial statements as the Group has no defined benefit plans.

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

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

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
HKFRS 9 (2014)	Financial Instruments ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
HKFRS 14	Regulatory Deferral Accounts ¹
HKFRS 15	Revenue from Contracts with Customers ²

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

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning, on or after 1 January 2018

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

An entity’s share of other comprehensive income from equity accounted interests in associates and joint ventures will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to HKAS 16 and HKAS 41 – Agriculture: Bearer Plants

The amendments define bearer plants and require biological assets that meet the definition to be accounted for as property, plant and equipment in accordance with HKAS 16. The agricultural produce of bearer plants remains within the scope of HKAS 41.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

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

HKFRS 9 (2014) – Financial Instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary’s main purpose is to provide services that relate to the investment entity’s investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12.

Amendments to HKFRS 11- Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply all of the principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

HKFRS 15 – Revenue from Contracts with Customers

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

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

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

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

The Group has already commenced an assessment of the impact of adopting the above Standards and amendments to existing Standards to the Group. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

(c) New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap. 622, in relation to the preparation of financial statements apply to the Company in this financial year.

The directors consider that there is no impact on the Group’s financial position or performance, however the new Companies Ordinance, Cap. 622, impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company is now presented in the notes to the financial statements rather than as a primary statement and related notes to the statement of financial position of the Company are generally no longer presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

(d) Functional and presentation currency

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

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

(b) Subsidiaries

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

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

(c) Joint arrangements

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

The group classifies its interests in joint arrangements as either:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

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

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

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

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

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

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

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

(f) Investment properties

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

(g) Properties under development

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Properties held for sale

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

(i) Capitalisation of borrowing costs

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

(j) Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(i) *Financial assets (continued)*

Financial assets at fair value through profit or loss (continued)

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

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

Loans and receivables

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

(ii) *Impairment loss on financial assets*

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(i) *Financial assets (continued)*

For Loans and receivables

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

(iii) *Financial liabilities*

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(iii) *Financial liabilities (continued)*

Financial liabilities at amortised cost

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

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

(iv) *Effective interest method*

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

(v) *Equity instruments*

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

(vi) *Financial guarantee contracts*

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

(vii) *Derecognition*

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Revenue recognition

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

- (i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.
- (ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.
- (iii) Property management service income is recognised when services are provided.
- (iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(l) Income taxes

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income taxes (continued)

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

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

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

(m) Foreign currency

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Foreign currency (continued)

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

(n) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution pension plan

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

(iii) Termination benefits

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

(o) Share-based payments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

(q) Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

(s) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Related parties (continued)

- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

Consideration receivable

Pursuant to an agreement entered by the Company on 26 July 2010 with 海航酒店控股集團有限公司 (Hainan Airline Hotel Holdings Group Co., Limited) (“**HNA Hotel**”), in relation to the Company’s disposal of its entire shareholding in 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Company Limited) (“**Huan Cheng**”), a former subsidiary engaged in the development of Tianhe Project, the final installment amount payable by HNA Hotel may be subject to adjustments caused by overruns in construction costs and delays in construction (the “**Disposal Agreement**”). Further on 20 October 2015, a supplemental agreement was entered into with 海南海控置業有限公司 (Hainan Haikong Realty Company Limited) (“**Hainan Realty**”), Huan Cheng’s holding company, which stipulated that the parties agreed that the construction costs be revised as a result of variations in certain construction specifications requested by Huan Cheng, HNA Hotel and Hainan Realty and the completion of the project will be taken place on or before 30 June 2016. The management estimates that no adjustment is to be made to the consideration receivable as it perceives that HNA Hotel will waive the Company’s responsibilities in the delays in the construction and the revised construction costs. Based on the management’s past experience in project management, its judgment on the current progress of construction, the management expects that the project will be duly completed within the extended timeline at the revised construction costs. Hence, the directors considered that the consideration receivable will be fully recoverable at its carrying amount as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Impairment of non-financial assets other than goodwill

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

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

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

Income taxes and deferred taxes

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

Land appreciation taxes

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

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

Impairment of goodwill

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

Critical judgments in applying accounting policies are as follows:

Consideration from disposal of Tianhe Project

During the year and at the end of the reporting period, the management makes judgement on whether the revenue recognition criteria set out in paragraph 14 of HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. Without having fully satisfied the revenue recognition criteria, the related revenue and costs of the project are deferred and carried in the consolidated statement of financial position. More details have been set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT REPORTING

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

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Property management services

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT REPORTING (continued)

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

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
Year ended 31 December 2015				
Segment revenue				
Reportable segment revenue	269,427	26,410	29,123	324,960
Elimination of intra-segment revenue	-	(8,166)	(10,473)	(18,639)
Consolidated revenue from external customers	269,427	18,244	18,650	306,321
Segment results	(118,184)	12,827	(14,156)	(119,513)
<i>Reconciliation:</i>				
Unallocated corporate net expenses				(97,699)
				(217,212)
Fair value changes in investment properties	-	6,736	-	6,736
Write-down of properties under development/ properties held for sale	(20,024)	-	-	(20,024)
Fair value changes in derivative financial asset/liabilities				2,632
Finance costs				(1,813)
Finance income				21,198
Consolidated loss before income tax				(208,483)
Other segment information:				
Depreciation and amortisation	(1,366)	(896)	(1,733)	(3,995)
Impairment loss on trade and other receivables	-	75	(285)	(210)
Additions to properties under Tianhe project	9,077	-	-	9,077
Additions to properties under development	2,395,868	-	-	2,395,868
Capital expenditure	1,869	-	161	2,030
As at 31 December 2015				
Assets and liabilities				
Assets				
Reportable segment assets	8,009,651	577,828	42,170	8,629,649
<i>Reconciliation:</i>				
Derivative financial asset				37
Short-term investments				460,000
Cash and cash equivalents				383,255
Unallocated restricted and pledged deposits				652,010
Unallocated corporate assets				
- Leasehold land and building				212,638
- Other corporate assets				19,438
Consolidated total assets				10,357,027
Liabilities				
Reportable segment liabilities	6,293,360	6,980	510,846	6,811,186
<i>Reconciliation:</i>				
Income tax payable				5,378
Deferred tax liabilities				168,781
Derivative financial liabilities				12,573
Unallocated bank and other borrowings				1,839,183
Unallocated corporate liabilities				10,921
Consolidated total liabilities				8,848,022

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT REPORTING (continued)

	Property development <i>RMB'000</i>	Property investment <i>RMB'000</i>	Property management <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2014				
Segment revenue				
Reportable segment revenue	118,345	22,448	29,443	170,236
Elimination of intra-segment revenue	-	(6,735)	(5,631)	(12,366)
Consolidated revenue from external customers	118,345	15,713	23,812	157,870
Segment results	(75,774)	12,648	(861)	(63,987)
<i>Reconciliation:</i>				
Unallocated corporate net expenses				(21,937)
				(85,924)
Fair value changes in investment properties	-	(38,822)	-	(38,822)
Write-down of properties under development	(38,759)	-	-	(38,759)
Gain from bargain purchase	-	-	1,600	1,600
Fair value changes in derivative financial asset/liabilities				2,245
Loss on disposal of subsidiaries, net of tax				(15,830)
Finance costs				(1,871)
Finance income				9,035
Consolidated loss before income tax				(168,326)
Other segment information:				
Depreciation and amortisation	(893)	(1,023)	(1,677)	(3,593)
Impairment loss on trade and other receivables	-	-	(236)	(236)
Additions to properties under Tianhe project	8,960	-	-	8,960
Additions to properties under development	2,215,687	-	-	2,215,687
Capital expenditure	2,422	2,207	182	4,811
As at 31 December 2014				
Assets and liabilities				
Assets				
Reportable segment assets	5,333,788	565,894	48,013	5,947,695
<i>Reconciliation:</i>				
Short-term investments				244,000
Cash and cash equivalents				201,105
Unallocated restricted and pledged deposits				297,200
Unallocated corporate assets				
- Leasehold land and building				219,293
- Other corporate assets				15,673
Consolidated total assets				6,924,966
Liabilities				
Reportable segment liabilities	3,797,927	10,174	14,418	3,822,519
<i>Reconciliation:</i>				
Income tax payable				64,971
Deferred tax liabilities				169,048
Derivative financial liabilities				32
Unallocated bank and other borrowings				1,113,716
Unallocated corporate liabilities				19,066
Consolidated total liabilities				5,189,352
Information about major customers				
None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2015 and 2014.				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. REVENUE

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Sale of properties	269,288	116,056
Rental income	18,383	18,002
Property management services	18,650	23,812
	306,321	157,870

8. FINANCE COSTS AND INCOME

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Finance costs:		
Interest on bank and other borrowings		
– wholly repayable within five years	233,956	204,363
– wholly repayable after five years	11,774	2,585
	245,730	206,948
<i>Less:</i> Amount capitalised as properties under development		
Interest on bank and other borrowings	(243,917)	(205,077)
	1,813	1,871
Other borrowing costs	26,569	29,431
<i>Less:</i> Amount capitalised as properties under development	(26,569)	(29,431)
	–	–
Finance costs charged to profit or loss	1,813	1,871
Finance income:		
Bank interest income	9,072	5,932
Interest income on short-term investments	11,814	3,094
Interest income on loan to a non-controlling shareholder of a subsidiary	312	–
Other interest income	–	9
Finance income credited to profit or loss	21,198	9,035

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. FINANCE COSTS AND INCOME (continued)

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 10.8% (2014: 12.4%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

9. LOSS BEFORE INCOME TAX

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost of properties sold	263,105	115,015
Write-down of properties under development/properties held for sale	20,024	38,759
Cost of inventories recognised in profit or loss	283,129	153,774
Staff costs, including directors' emoluments	73,854	52,966
Auditor's remuneration		
– current year	793	887
– over-provision for prior year	–	(40)
– non-audit services	478	445
Depreciation of property, plant and equipment	13,178	9,110
Less: Amount capitalised as properties under development	(92)	(36)
Depreciation charged to profit or loss	13,086	9,074
Amortisation of leasehold land	3,407	3,407
Depreciation and amortisation charged to profit or loss	16,493	12,481
Loss on disposal of property, plant and equipment	–	57
Minimum lease payments under operating lease in respect of:		
– rented office premises	574	1,378
– rented other premises	499	579
Unrealised exchange loss	69,026	972
Impairment loss on trade and other receivables	292	236
Bad debts recovered	(82)	–
Direct operating expenses arising from investment properties that generated rental income	2,821	5,041
Direct operating expenses arising from investment properties that did not generate rental income	192	486

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. STAFF COSTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	90,270	70,226
Bonuses	6,500	2,106
Equity-settled share-based payment expenses	6,546	907
Contributions to defined contribution pension plans	4,946	3,647
	108,262	76,886
<i>Less: Amount capitalised as properties under development</i>	(34,408)	(23,920)
Staff costs charged to profit or loss	73,854	52,966

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note (a))	(note (b))			
2015						
Executive directors						
YU Pan	-	2,036	498	-	14	2,548
WEN Xiaobing	96	1,730	288	876	64	3,054
WONG Lok	-	213	-	-	10	223
JIANG Jing (appointed on 1 July 2015)	49	440	73	-	39	601
Non-executive director						
ZHONG Guoxing	-	-	-	-	-	-
Independent non-executive directors						
CHOY Shu Kwan	192	-	-	67	-	259
CHENG Wing Keung, Raymond	192	-	-	67	-	259
CHUNG Lai Fong	192	-	-	67	-	259
	721	4,419	859	1,077	127	7,203
2014						
Executive directors						
YU Pan	-	1,906	378	-	14	2,298
WEN Xiaobing	95	1,763	-	245	52	2,155
WONG Lok	-	210	-	-	10	220
Non-executive director						
ZHONG Guoxing	-	-	-	-	-	-
Independent non-executive directors						
CHOY Shu Kwan	174	-	-	-	-	174
CHENG Wing Keung, Raymond	174	-	-	-	-	174
CHUNG Lai Fong	174	-	-	-	-	174
	617	3,879	378	245	76	5,195

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. DIRECTORS' EMOLUMENTS (continued)

Notes:

- (a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind;
- (b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the remuneration committee of the Company; and
- (c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the period are included in note 12 below.

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

12. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

Of the five individuals with the highest emoluments in the Group during the year, two (2014: two) are Director whose emoluments are included in note 11 above. The emoluments of the remaining three (2014: three) are as follows:

	2015 RMB'000	2014 RMB'000
Basic salaries and other benefits	4,192	3,889
Bonuses	894	379
Equity-settled share-based payment expenses	1,964	410
Contributions to defined contribution pension plans	143	118
	7,193	4,796

Their emoluments are within the following bands:

	Number of individuals	
	2015	2014
RMB838,001 to RMB1,257,000 (equivalent to Hong Kong dollars ("HK\$") 1,000,001 to HK\$1,500,000)	–	1
RMB1,257,001 to RMB1,676,000 (equivalent to HK\$1,500,001 to HK\$2,000,000)	–	1
RMB1,676,001 to RMB2,095,000 (equivalent to HK\$2,000,001 to HK\$2,500,000)	1	–
RMB2,095,001 to RMB2,513,000 (equivalent to HK\$2,500,001 to HK\$3,000,000)	1	1
RMB2,513,001 to RMB2,932,000 (equivalent to HK\$3,000,001 to HK\$3,500,000)	1	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT (continued)

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

	Number of senior management	
	2015	2014
RMBNil to RMB838,000 (equivalent to HK\$Nil to HK\$1,000,000)	–	1
RMB838,001 to RMB1,257,000 (equivalent to HK\$1,000,001 to HK\$1,500,000)	1	2
RMB1,257,001 to RMB1,676,000 (equivalent to HK\$1,500,001 to HK\$2,000,000)	1	1
RMB1,676,001 to RMB2,095,000 (equivalent to HK\$2,000,001 to HK\$2,500,000)	1	–
RMB2,095,001 to RMB2,513,000 (equivalent to HK\$2,500,001 to HK\$3,000,000)	1	1
RMB2,513,001 to RMB2,932,000 (equivalent to HK\$3,000,001 to HK\$3,500,000)	1	–

13. INCOME TAX EXPENSE/(CREDIT)

	2015	2014
	RMB'000	RMB'000
Current tax		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	233	532
– write-off of provisional corporate income taxes	7,576	–
PRC LAT		
– current year	9,471	1,372
– write-off of provisional LAT	6,768	–
	24,048	1,904
Deferred tax		
– current year	(267)	(10,250)
Total income tax expense/(credit)	23,781	(8,346)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

No provision for Hong Kong profits tax has been made for the year ended 31 December 2015 (2014: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2014: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2014: 25%) of the estimated assessable profits.

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

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Loss before income tax	(208,483)	(168,326)
Tax calculated at the applicable income tax rate of 25% (2014: 25%)	(52,121)	(42,082)
Effect of different tax rates of entities operating in other jurisdictions	16,583	11,954
Tax effect of expenses not deductible for tax purposes	16,158	17,663
Tax effect of revenue not subject to tax	(948)	(478)
Tax effect of tax losses not recognised	13,580	4,023
Utilisation of tax losses previously not recognised	–	(3,648)
Tax effect of LAT	16,239	1,372
Under-provision in respect of prior years	7,578	–
Tax effect of other temporary differences not recognised	6,783	2,146
Others	(71)	704
Income tax expense/(credit)	23,781	(8,346)

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB192,675,000 (2014: RMB121,986,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. LOSS PER SHARE

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Loss for the purposes of basic and diluted loss per share	<u>(211,769)</u>	<u>(141,252)</u>
	Number of shares	
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>2,216,531</u>	<u>2,216,531</u>

For the year ended 31 December 2015 and 2014, basic loss per share is same as diluted loss per share as any effect from the Company's options is anti-dilutive.

16. DIVIDENDS

The Company does not have distributable reserve available for payment of dividend for the year ended 31 December 2015 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2014	153,072	4,855	6,474	164,401
Additions	–	7,467	1,571	9,038
Acquired through business combinations	–	163	26	189
Transfer from investment properties (<i>Note 18</i>)	116,092	–	–	116,092
Disposal of subsidiaries	–	(740)	(438)	(1,178)
Written off/disposals	–	(688)	–	(688)
Exchange differences	–	1	(7)	(6)
At 31 December 2014 and at 1 January 2015	269,164	11,058	7,626	287,848
Additions	–	1,187	1,762	2,949
Written off/disposals	–	(51)	–	(51)
Exchange differences	4,593	242	134	4,969
At 31 December 2015	273,757	12,436	9,522	295,715
Accumulated depreciation				
At 1 January 2014	363	2,386	2,202	4,951
Disposal of subsidiaries	–	(582)	(384)	(966)
Depreciation for the year	5,711	2,066	1,333	9,110
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(631)	–	(631)
Exchange differences	(15)	–	(1)	(16)
At 31 December 2014 and at 1 January 2015	9,466	3,239	3,150	15,855
Depreciation for the year	8,978	2,520	1,680	13,178
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(51)	–	(51)
Exchange differences	458	80	63	601
At 31 December 2015	22,309	5,788	4,893	32,990
Net book value				
At 31 December 2015	251,448	6,648	4,629	262,725
At 31 December 2014	259,698	7,819	4,476	271,993

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. INVESTMENT PROPERTIES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At beginning of year	556,533	710,826
Transfer to property, plant and equipment (Note 17)	–	(116,092)
Changes in fair value	6,736	(38,822)
Exchange differences	6,789	621
At end of year	570,058	556,533

Details of assessment of the fair value are set out in note 25.

19. PROPERTIES UNDER TIANHE PROJECT

Details of the project are set out in note 34. The following table reconciles the movement of the carrying amount of costs of the Tianhe Project during the year:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At beginning of year	777,090	768,130
Additions of other development costs	9,078	8,960
At end of year	786,168	777,090

The construction of Tianhe project will be completed and delivered to the customer in 2016, therefore, it is reclassified to current as at 31 December 2015.

20. GOODWILL

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost		
At beginning of year	68,664	68,664
At end of year	68,664	68,664
Accumulated impairment loss		
At beginning of year	55,110	55,110
At end of year	55,110	55,110
Net book value		
At end of year	13,554	13,554

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. GOODWILL (continued)

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

Project	Attributable CGU	2015 RMB'000	2014 RMB'000
Zhoutouzui Project	Property development (Note)	13,554	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties under development (as disclosed in note 23).

Impairment test for goodwill

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

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
2015		
Property development	8.00%	31.70%
2014		
Property development	8.00%	25.01%

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

No impairment loss is provided for the year ended 31 December 2015 (2014: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. JOINT ARRANGEMENT

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

Place and date of establishment	Registered capital	Paid-up capital	Principal activity
PRC, 31 March 2003	US\$100,000,000	US\$100,000,000 (approximately RMB656,641,000) (2014: US\$90,000,000 (approximately RMB595,487,000))	Property development in the PRC

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

22. CONSIDERATION RECEIVABLE

	Gross consideration	(Settled)/ Paid	2015 RMB'000	2014 RMB'000
Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group)	1,128,273	(988,273)	140,000	140,000
Less: Estimated development costs and finance costs borne by the Group	(55,000)	20,000	(35,000)	(35,000)
Amortised costs	1,073,273	(968,273)	105,000	105,000
Amount due within one year included in current assets	(1,073,273)	968,273	(105,000)	–
Amount due after one year	–	–	–	105,000

The receivable relates to the outstanding instalments receivable from the purchaser, Hainan Realty, for the disposal of the equity interests in Huan Cheng that is unsecured and interest-free. An estimated total sum of approximately RMB140,000,000 is receivable from Hainan Realty before taking into account the estimated costs to be borne by the Group pursuant to the agreement, including estimated finance costs totalling RMB35,000,000 to be borne by the Group. The final instalment, estimated at a present value of approximately RMB105,000,000 (2014: RMB105,000,000), is receivable when the construction of the properties is completed, which is expected to occur within twelve months from the end of reporting period.

23. PROPERTIES UNDER DEVELOPMENT

Properties under development in the PRC are as follows:

	2015 RMB'000	2014 RMB'000
Land use rights (<i>Note</i>)	2,091,426	1,393,411
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	637,822	638,392
Construction costs	2,637,548	1,320,605
Others	809,040	514,635
	6,175,836	3,867,043
Less: Accumulated write-down in value	(16,559)	(38,759)
	6,159,277	3,828,284

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. PROPERTIES UNDER DEVELOPMENT (continued)

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At beginning of year	3,828,284	2,262,709
Additions		
– Capitalisation of depreciation of property, plant and equipment	92	36
– Capitalisation of finance costs	270,486	234,508
– Land and other development costs	2,395,868	2,215,687
	2,666,446	2,450,231
Completed properties transferred to properties held for sale	(327,274)	(231,403)
Impairment loss charged to profit or loss	(8,179)	(38,759)
Disposal of a subsidiary	–	(614,494)
	6,159,277	3,828,284

24. PROPERTIES HELD FOR SALE

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Completed properties held for sale	189,695	125,526
Less: Impairment loss charged to profit or loss	(11,845)	–
	177,850	125,526

All completed properties held for sale as at 31 December 2015 were located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. ANALYSIS OF PROPERTIES

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Medium-term land lease in the PRC and Hong Kong		
– Investment properties	570,058	556,533
– Leasehold land and building	68,640	70,940
Long-term land lease in the PRC		
– Leasehold land and building	182,808	188,758
– Properties held for sale	177,850	125,526
	999,356	941,757

(b) All of the Group's completed properties were revalued as at 31 December 2015 and 31 December 2014. The valuations were carried out by DTZ Debenham Tie Leung International Property Advisers (Guangzhou) Co., Ltd. and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) As at 31 December 2015, the Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 44 are pledged to secure bank and other borrowings of the Group, as disclosed in notes 33(a) and 33(c). As at 31 December 2014, the Group's investment properties, leasehold land and building and properties held for sale with carrying amounts as disclosed in note 44 are pledged to secure bank and other borrowings of the Group, as disclosed in notes 33(a) and 33(c).

(d) For the year ended 31 December 2015, the rental income from investment properties and properties held for sale amounted to RMB18,244,000 (2014: RMB15,713,000) and RMB139,000 (2014: RMB2,289,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

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

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
2015					
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.	If the capitalisation rate to the valuation model is 1% higher/lower, while all the other variables were held constant, the carrying value of Property would decrease by approximately RMB43,000,000 and increase by approximately RMB50,000,000 respectively.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB400/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.	If the daily unit rent to the valuation model is 5% higher/lower, while all the other variables were held constant, the carrying value would increase by approximately RMB19,000,000 and decrease by approximately RMB19,000,000 respectively.
2014					
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.	If the capitalisation rate to the valuation model is 1% higher/lower, while all the other variables were held constant, the carrying value of Property would decrease by approximately RMB44,000,000 and increase by approximately RMB52,000,000 respectively.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB394/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.	If the daily unit rent to the valuation model is 5% higher/lower, while all the other variables were held constant, the carrying value would increase by approximately RMB18,000,000 and decrease by approximately RMB18,000,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2015 and 31 December 2014 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

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

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Opening balance (level 3 recurring fair value)	447,000	530,000
Transfer to property, plant and equipment	–	(42,000)
Gains/(losses): included in other gains and losses	1,000	(41,000)
Closing balance (level 3 recurring fair value)	<u>448,000</u>	<u>447,000</u>

26. LOAN TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The balance is unsecured, interest bearing at floating rate according to 110% of the 1-year Lending rate quoted by the People's Bank of China and repayable in September 2016 and is provided to shareholders of a subsidiary at an amount pro-rata to their capital contributed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Current or less than 1 month	881	1,503
1 to 3 months	462	338
More than 3 months but less than 12 months	589	106
More than 1 year	114	78
Trade receivables, net of impairment	2,046	2,025
Refundable earnest money in a development project	–	10,000
Surety deposit paid for securing due performance of the construction of a hotel in Yongzhou	–	32,000
Refundable construction costs	19,159	–
Tender deposit in development project	30,800	6,800
Prepaid construction costs	110,636	239,326
Prepaid finance costs	141	10,570
Prepaid business taxes and surcharges	200,305	73,756
Maintenance funds paid on behalf of properties owners	41,161	16,788
Interest receivable on bank deposits/short-term investments	4,941	6,624
Other deposits, prepayments and other receivables	86,785	69,148
	495,974	467,037

Notes:

- (a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.
- (b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2015 RMB'000	2014 RMB'000
1 to 3 months past due	462	338
More than 3 months but less than 12 months past due	589	106
More than 1 year past due	114	78
	1,165	522

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) (continued)

The balances of other classes within trade and other receivables of the Group are neither past due nor impaired. They mainly comprise prepaid construction costs paid to contractors on existing projects, prepaid taxes and maintenance funds paid to government on behalf of property buyers. Management considers that the credit risk associated with these receivables is minimal.

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

	2015 RMB'000	2014 RMB'000
At beginning of year	1,193	437
Acquired through business combination	–	520
Impairment loss recognised	292	236
Bad debts recovered	(82)	–
At end of year	1,403	1,193

28. SHORT-TERM INVESTMENTS

The Group invested in certain saving plans issued by bank on mainland China with investment values amounting to RMB460,000,000 which were used to secure two back-to-back letters of credit issued by a local bank in the PRC to a Hong Kong-based bank and New York-based bank to guarantee repayment by Guangzhou Tianyu Property Management Company Limited (“**Tianyu Property Management**”) for money market loans of US\$31,000,000 (approximately RMB201,302,000) and US\$39,600,000 (approximately RMB257,147,000) respectively. The two saving plans carry a return respectively at a fixed rate of 3.5% and 3.6% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. RESTRICTED AND PLEDGED DEPOSITS

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	(a)	652,010	297,200
– the payment of construction cost of development projects	(b)	261,754	33,042
– others		8,965	4,602
		922,729	334,844

Notes:

- (a) As at 31 December 2015, to secure a back-to-back letter of credit issued by a local bank in the PRC to a Macau-based bank to guarantee repayment of the latter's money market loan facility granted to a subsidiary in a total of HK\$750,000,000 (approximately RMB628,350,000) of which HK\$233,000,000 (approximately RMB195,207,000) was drawn down on 4 January 2016, bank deposits with an aggregate balance of RMB652,010,000 were placed in the local bank in the PRC.
- (b) The balance represents deposits received from buyers of pre-sold properties. These deposits shall be released only to pay construction costs of the development projects.

30. CASH AND CASH EQUIVALENTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Short-term bank deposits	652,010	297,200
Cash at bank and in hand	653,974	238,749
	1,305,984	535,949
Less: Restricted and pledged deposits (<i>Note 29</i>)	(922,729)	(334,844)
	383,255	201,105

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. TRADE AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current or less than 1 month	1,485	–
1 to 3 months	477	242
More than 3 months but less than 12 months	5	226
More than 12 months	198	153
Total trade payables	2,165	621
Construction costs payable	648,437	116,474
Tender receivable from the suppliers	49,397	48,499
Land cost payable	352,511	–
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	16,404	13,874
Receipts in advance from government on a project clearance	54,630	–
Compensation payable	11,250	–
Accrued business taxes and surcharges	19,685	2,546
Interest payable on bank and other borrowings	6,472	18,743
Other accrued expenses and other payables	39,782	28,017
	1,200,733	228,774

32. FINANCIAL GUARANTEE CONTRACT

During the year ended 31 December 2015 and 31 December 2014, the Company provided corporate guarantees to secure for the repayment of subsidiaries' borrowings as disclosed in notes 33. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2015 and 31 December 2014.

As at 31 December 2015, the Group provides guarantees to the extent of approximately RMB1,178,900,000 (2014: RMB140,111,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceed recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	<i>(a)</i>	538,483	728,903
(ii) money market loans	<i>(b)</i>	891,591	472,825
Other secured borrowings:			
(i) trust loan	<i>(c)</i>	500,000	500,000
(ii) entrusted loan	<i>(d)</i>	–	–
(iii) secured bonds	<i>(e)</i>	466,563	244,642
Unsecured borrowings:			
(i) unsecured bonds	<i>(f)</i>	251,185	104,457
(ii) other borrowings	<i>(g)</i>	112,000	224,000
		2,759,822	2,274,827
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	<i>(f)</i>	(37)	–
Derivative financial liabilities			
– Exchange Rights, Extension Rights and Holder Repurchase Rights on Secured Bonds	<i>(e)</i>	5,877	32
– Holder Redemption Rights on Unsecured Bonds	<i>(f)</i>	6,696	–
		12,573	32
Amounts due within one year included in current liabilities		–	(32)
Amounts due after one year		12,573	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Notes:

- (a) At 31 December 2015, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB3,024,205,000. At 31 December 2014, all the bank borrowings are secured by mortgages of ownership titles of properties under development, properties held for sale and investment properties with an aggregate carrying amount of approximately RMB2,537,109,000. The bank loans carry interest at variable market rates ranging from 2.75% to 5.23% per annum (2014: 2.75% to 7.38% per annum) as at 31 December 2015. The Company provides corporate guarantee to secure for the repayment of a term loan and revolving loans with carrying value of approximately RMB117,843,000 (2014: RMB113,792,000), and a construction loan of approximately RMB420,640,000 (2014: RMB470,111,000) is secured by the personal guarantee provided by Mr. YU Pan and his spouse. Other than a term loan of approximately RMB67,575,000 (2014: RMB66,458,000) which is repayable by monthly instalment until 2033, bank borrowings in an aggregate amount of approximately RMB470,908,000 (2014: RMB662,445,000) are repayable in 2015 and 2016.
- (b) As at 31 December 2015, the money market loans in aggregate of approximately RMB891,591,000 (2014: RMB472,825,000) extended by three banks in Macau, New York and Hong Kong were secured respectively by bank deposits of RMB652,010,000, short-term investments in saving plans issued by a bank in the PRC of RMB260,000,000 and RMB200,000,000. In addition to the pledge of deposits, the Company provides corporate guarantees to secure for the repayment of the money market loans of RMB458,448,000 (2014: RMB189,689,000). The money market loans carry variable interests at the rate from 1.32% to 2.7% per annum (2014: 2.93% to 3.26% per annum), and are repayable in 2016.
- (c) As at 31 December 2015, some property units at Tianyu Garden Phase II and the office premises at HNA Tower, both in Tianhe District, Guangzhou, with an aggregate carrying amount of approximately RMB591,998,000 (2014: RMB595,353,000) are mortgaged to a financial institution for a trust loan of RMB500,000,000 granted to a subsidiary. The loan is secured by corporate guarantee provided by the Company, certain subsidiaries of the Group and a company controlled by Mr. YU Pan and personal guarantee provided by Mr. YU Pan. The trust loan carries fixed rate at 14% per annum and was fully repaid on 18 January 2016.
- (d) As at 30 December 2015, Guangzhou Yu Jun Consulting Service Company Limited (“GZ Yu Jun”) has entrusted a third party entity to borrow bank borrowings on behalf of GZ Yu Jun whose property units are mortgaged to a bank for bank loan facility of RMB27,000,000 granted to the Company. The loan facility is also secured by corporate guarantee of RMB35,000,000 provided by the Company and personal guarantee given by Mr. YU Pan. The entrusted loan carries interest at variable market rate at 10.0% per annum and is repayable in December 2016. As at 31 December 2015, the entrusted loan facility was not drawn down.
- (e) On 23 July 2015, Ample Mark Enterprises Limited (“Ample Mark”) extended a loan to the Company of HK\$560,000,000 (RMB469,168,000) (the “Loan”) and subscribed for convertible bonds issued by the Company in an aggregate principle amount of HK\$40,000,000 (RMB33,512,000) (the “Convertible Bonds”). The Loan bears interests at the rate of 10% per annum. The Loan has a term of two years and is repayable on 22 July 2017.

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For the year ended 31 December 2015

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

Notes: (continued)

(e) (continued)

The Convertible Bonds bear interests on the outstanding principal amount at the rate of 10% per annum which is payable every three (3) months. Pursuant to the terms and conditions of the instrument dated 23 July 2015, the convertible bondholders shall have the right to convert all or any part of the principal amount of the Convertible Bonds into shares at an initial conversion price of HK\$1.036 per share (subject to adjustment) at any time on and after the issue date up to the maturity date of the Convertible Bonds. The Convertible Bonds has a term of two (2) years from the issue date extendable for a further two (2) years by the holders of the Convertible Bonds.

The Loan and the Convertible Bonds are amortised using the effective interest method by applying the effective interest rate of 16.17% per annum.

Pursuant to the two share charges both dated 23 July 2015, Fortunate Start Investments Limited, a wholly owned subsidiary of the Company, has charged all its rights, title and interest in GZ Zhoutouzui in favour of Ample Mark to secure the repayment of the Loan and the Convertible Bonds.

The movements of the Secured Bonds are as follows:

	<i>RMB'000</i>
Issue of the Secured Bonds, net of transaction costs	431,065
Accrued interest expense	28,403
Interest paid	(19,939)
Exchange differences	27,092
	<hr/>
At 31 December 2015	466,621

In October 2013, the Company has issued secured bonds in a principal amount of HK\$298,000,000 (approximately RMB235,092,000) (the "Secured Bonds"). Details of the Secured Bonds was set out in the Company's circular dated 18 October 2013. The Secured Bonds bear interests the rate of 10% per annum from the date of issue until the earlier of (i) the date on which the exchange rights are exercised, or (ii) the maturity date on 17 October 2015 (being the second anniversary of the date of the issuance of the Secured Bonds). The Company redeemed the Secured Bonds at approximately HK\$327,800,000 (approximately RMB269,058,000) (being the redemption price of HK\$405,280,000 less the Fee and the total amount of interest paid up to the maturity date of HK\$59,600,000) on 16 October 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Notes: (continued)

(e) (continued)

The movements of the Secured Bonds are as follows:

	RMB'000
At 1 January 2014	224,034
Accrued interest expense	43,539
Interest paid	(23,582)
Exchange differences	651
	<hr/>
At 31 December 2014 and 1 January 2015	244,642
Final redemption amount	(269,058)
Accrued interest expense	37,953
Interest paid	(23,770)
Exchange differences	10,233
	<hr/>
At 31 December 2015	<u>–</u>

(f) In 2014, the Company issued unsecured bonds in an aggregate principal amount of HK\$100,000,000 (RMB83,780,000) due in 2016 at a discount of 7% at the principal amount (the "2016 Bonds"). The 2016 Bonds carry interests at the rate of 10% per annum, which are payable quarterly in arrears, and will mature in 2016. The 2016 Bonds were amortised at the effective interest method by applying the effective interest rate of 18.4% per annum.

As at 31 December 2015, the Company has issued unsecured bonds with the respective principal amount in aggregate of HK\$290,000,000 (RMB242,962,000) due on 12 September 2024 (the "2024 Bonds"), HK\$570,000,000 (RMB477,546,000) due on 14 November 2031 (the "2031 Bonds") and HK\$20,000,000 (RMB16,756,000) due on 14 November 2032 (the "2032 Bonds"). The 2024 Bonds carry coupon interest at 7.5%, 2031 Bonds and 2032 Bonds carry coupon interest at 8.0% per annum all of which were payable in advance upon the issue of the bonds. In addition, these unsecured bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds) and 14 November (for the 2031 Bonds and 2032 Bonds) until maturity. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Notes: (continued)

(f) (continued)

The movements of the bonds are as follows:

	2016 Bonds	2024 Bonds	2031 Bonds	2032 Bonds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Nominal value	100,000	290,000	570,000	20,000	980,000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nominal value	83,780	242,962	477,546	16,756	821,044
Liability component of carrying amount					
Issue of the bonds, net of transaction costs	73,649	75,835	46,005	–	195,489
Discounts and interest paid	(10,490)	(51,455)	(39,106)	–	(101,051)
Accrued interest expense	9,566	654	61	–	10,281
Exchange differences	(130)	(111)	(21)	–	(262)
At 31 December 2014 and 1 January 2015	72,595	24,923	6,939	–	104,457
Issue of the bonds, net of transaction costs	–	143,019	396,348	16,011	555,378
Discounts and interest paid	(7,995)	(91,763)	(331,817)	(13,574)	(445,149)
Accrued interest expense	13,817	5,654	4,307	–	23,778
Exchange differences	4,675	4,324	3,685	37	12,721
At 31 December 2015	83,092	86,157	79,462	2,474	251,185

(g) The balances represent unsecured loans advanced from third parties. The loans carry interest at the fixed rate of 15% per annum and are repayable in November 2017.

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

	2015	2014
	RMB'000	RMB'000
On demand or within one year	2,013,166	1,305,610
More than one year, but not exceeding two years	578,563	937,356
More than two years, but not exceeding five years	–	–
After five years	168,093	31,861
	2,759,822	2,274,827
Amounts due within one year included in current liabilities	(2,013,166)	(1,305,610)
Amounts due after one year	746,656	969,217

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT

In July 2010, the Disposal Agreement for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, was entered into between the Company, Yaubond Limited (“Yaubond”) and HNA Hotel for a gross sale consideration (the “Consideration”) of RMB1,090,000,000, subject to certain adjustments. Such adjustments represent adjustment on net assets transferred to HNA Hotel of RMB38,273,000 and future development costs and finance costs to be borne by the Group, which are estimated to be RMB20,000,000 and RMB35,000,000 respectively. Details of the adjustment mechanism to the Consideration and timing of the payment of the Consideration was set out in the Company’s circular dated 19 August 2010 which is supplemented by a memorandum of understanding signed on 8 September 2010 by the contracting parties in relation to finance cost to be borne by the Group. Further on 20 October 2015, a supplemental agreement was entered into with Hainan Realty, Huan Cheng’s current holding company, which stipulated that the parties agreed that the construction costs be revised as a result of variations in certain construction specifications requested by Huan Cheng, HNA Hotel and Hainan Realty, the completion of the project will be taken place on or before 30 June 2016. The management estimates that no adjustment is to be made to the consideration receivable as it perceives that HNA Hotel will waive the Company’s responsibilities in the delays in the construction and the construction costs be revised as a result of variations in certain construction specifications requested by HNA Hotel. Based on the management’s past experience in project management, its judgment on the current progress of construction, the management expects that the project will be duly completed within the extended timeline in 2016 at the revised construction costs.

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

As at 31 December 2015, consideration from disposal of Tianhe Project was estimated to be approximately RMB990,360,000 (2014: RMB990,360,000).

The Directors consider that the Disposal Agreement constitutes an agreement for the sale of goods/ services and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 “Revenue” apply. There are uncertainties about the due performance of the Group of certain obligations under the Disposal Agreement, and the costs to be deducted from the gross sale consideration caused by overruns in construction costs are still to be subject to variations to be agreed with HNA Hotel.

Based on the foregoing circumstances, the Directors are of the view that the revenue recognition criteria set out in HKAS 18 have not been fully satisfied and therefore the disposal of the assets and liabilities of the Tianhe Project is not recognised until when substantial part of the revenue can be ascertained reliably. The revenue and associated costs of the Tianhe Project are deferred until the construction is completed to a progress where the revenue can be reliably measured. Therefore, the net sale consideration is recorded as consideration from disposal of Tianhe Project as at 31 December 2015. The costs of the Tianhe Project are not derecognised, but instead included in properties under Tianhe Project in the consolidated statement of financial position as detailed in note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities are as follows:

	Revaluation of properties			Total RMB'000
	Leasehold land and building RMB'000	Investment properties RMB'000	Properties under development RMB'000	
At 1 January 2014	–	102,690	76,608	179,298
Reallocation	6,813	(6,813)	–	–
Charged to profit or loss	–	(10,250)	–	(10,250)
At 31 December 2014 and at 1 January 2015	6,813	85,627	76,608	169,048
Charged to profit or loss	(517)	250	–	(267)
At 31 December 2015	6,296	85,877	76,608	168,781

As at 31 December 2015, the Group have estimated unutilised tax losses of approximately RMB370,489,000 (2014: RMB302,247,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB100,053,000 (2014: 71,639,000) which may be carried forward indefinitely, and the remaining balance of RMB270,436,000 (2014: RMB230,608,000) will expire in 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. SHARE CAPITAL

(a) Authorised and issued share capital

	Number of shares			Nominal value			Equivalent nominal value of ordinary share capital of HK\$0.01 each RMB'000
	Ordinary share capital of HK\$0.01 each '000	Convertible preference share capital of HK\$0.01 each '000	Total '000	Ordinary share capital of HK\$0.01 each HK\$'000	Convertible preference share capital of HK\$0.01 each HK\$'000	Total HK\$'000	
Authorised:							
At 31 December 2014 (Audited) and 1 January 2015	29,000,000	1,000,000	30,000,000	290,000	10,000	300,000	311,316
Reclassification (Note)	1,000,000	(1,000,000)	-	10,000	(10,000)	-	-
At 31 December 2015	<u>30,000,000</u>	<u>-</u>	<u>30,000,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>311,316</u>
Issued and fully paid:							
<u>Ordinary shares of HK\$0.01 each</u>							
At 31 December 2014, at 1 January 2015 and 31 December 2015	2,216,531	-	2,216,531	22,165	-	22,165	21,068

Note: All convertible preference share of HK\$0.01 each in the authorized share capital of the Company was re-classified as the ordinary share of HK\$0.01 each of the Company by a shareholder's resolution passed on 9 June 2015.

(b) Capital management policy

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. SHARE CAPITAL (continued)

(b) Capital management policy (continued)

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

	2015 RMB'000	2014 RMB'000
Total debt	2,772,395	2,274,859
Less: restricted bank deposits backing up the money market loans	(652,010)	(297,200)
Less: cash and cash equivalents	(383,255)	(201,105)
Net debt	1,737,130	1,776,554
Equity attributable to owners	1,503,940	1,710,054
Capital plus net debt	<u>3,241,070</u>	<u>3,486,608</u>
Gearing ratio (Net debt/Capital plus net debt)	<u>53.6%</u>	<u>51.0%</u>

37. RESERVES

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2014	1,507,182	16,116	13,505	34,499	(293,095)	6,471	(87)	7,351	536,971	1,828,913
Recognition of equity-settled share-based payment expenses	-	-	907	-	-	-	-	-	-	907
Reallocation of lapsed options from share-based payment reserve to retained profits	-	-	(2,260)	-	-	-	-	-	2,260	-
Exchange differences arising on foreign operations	-	-	-	-	-	-	(325)	-	-	(325)
Gain on disposal of a subsidiary, net of tax	-	-	-	-	-	-	-	743	-	743
Transfer among reserves	-	-	-	-	-	-	-	(7,351)	7,351	-
Loss for the year	-	-	-	-	-	-	-	-	(141,252)	(141,252)
As at 31 December 2014 and at 1 January 2015	1,507,182	16,116	12,152	34,499	(293,095)	6,471	(412)	743	405,330	1,688,986
Recognition of equity-settled share-based payment expenses	-	-	6,546	-	-	-	-	-	-	6,546
Reallocation of lapsed options from share-based payment reserve to retained profits	-	-	(8,122)	-	-	-	-	-	8,122	-
Exchange differences arising on foreign operations	-	-	-	-	-	-	(891)	-	-	(891)
Loss for the year	-	-	-	-	-	-	-	-	(211,769)	(211,769)
At 31 December 2015	<u>1,507,182</u>	<u>16,116</u>	<u>10,576</u>	<u>34,499</u>	<u>(293,095)</u>	<u>6,471</u>	<u>(1,303)</u>	<u>743</u>	<u>201,683</u>	<u>1,482,872</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. RESERVES (continued)

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

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve under certain circumstances.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(o).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. RESERVES (continued)

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

Statutory reserves

In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.

Foreign exchange reserve

The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(m).

Capital reserve

The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

- (b) **Distributable reserves**

As at 31 December 2015, there were no distributable reserves available for distribution to owners of the Company (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "2005 Scheme").

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) 2005 Scheme (continued)

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

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the “2015 Scheme”).

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the “Invested Entity”). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as “refreshed” shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”.

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

Date of grant	Exercise period	Exercise price per share	Number of options outstanding at 1 January 2014	During the year ended 31 December 2014			Number of options outstanding at 31 December 2014 and 1 January 2015	During the year ended 31 December 2015			Number of Options outstanding at 31 December 2015
				Options granted	Options exercised	Options lapsed		Options granted	Options exercised	Options lapsed/cancelled	
12 September 2006	13 March 2007 to 31 July 2015	HK\$1.2565	29,089,079	-	-	-	29,089,079	-	-	(29,089,079)	-
11 August 2011	11 August 2012 to 10 August 2021	HK\$0.6714	9,036,033	-	-	(3,093,104)	5,942,929	-	-	-	5,942,929
11 August 2011	11 August 2015 to 10 August 2021	HK\$0.6714	9,036,034	-	-	(3,093,104)	5,942,930	-	-	-	5,942,930
11 August 2011	11 August 2018 to 10 August 2021	HK\$0.6714	9,036,036	-	-	(3,093,104)	5,942,932	-	-	-	5,942,932
			27,108,103	-	-	(9,279,312)	17,828,791	-	-	-	17,828,791
26 June 2015	26 June 2016 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,439,000	-	(143,000)	10,296,000
26 June 2015	26 June 2017 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,439,000	-	(143,000)	10,296,000
26 June 2015	26 June 2018 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,439,000	-	(143,000)	10,296,000
26 June 2015	26 June 2019 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,439,000	-	(143,000)	10,296,000
26 June 2015	26 June 2020 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,439,000	-	(143,000)	10,296,000
26 June 2015	26 June 2021 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,439,000	-	(143,000)	10,296,000
26 June 2015	26 June 2022 to 25 June 2025	HK\$1.0820	-	-	-	-	-	10,366,000	-	(142,000)	10,224,000
			-	-	-	-	-	73,000,000	-	(1,000,000)	72,000,000
			56,197,182	-	-	(9,279,312)	46,917,870	73,000,000	-	(30,089,079)	89,828,791
Weighted average exercise price		HK\$0.9743				HK\$0.6714	HK\$1.0342	HK\$1.0820		HK\$1.2507	HK\$1.0005
<i>Analysis by category:</i>											
Directors			17,516,004	-	-	(5,213,097)	12,302,907	11,000,000	-	(7,089,810)	16,213,097
Other employees			33,468,081	-	-	(4,066,215)	29,401,866	62,000,000	-	(17,786,172)	73,615,694
Non-employees			5,213,097	-	-	-	5,213,097	-	-	(5,213,097)	-
			56,197,182	-	-	(9,279,312)	46,917,870	73,000,000	-	(30,089,079)	89,828,791

Note: The fair value of options granted was determined using the binomial (Cox, Ross, Rubinstein) option pricing valuation model by an independent valuer, APAC Asset Valuation and Consulting Limited. The significant inputs into the model were closing share price at the date of grant/valuation date, expected volatility based on past few years historical price volatility of the Company, vesting period of the options, risk-free rate, being the yield of Hong Kong government bonds, life of the options, expiration of the options and expected ordinary dividend.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 12 September 2006 and 11 August 2011 were HK\$0.28 and HK\$0.42 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme:

Option pricing model	Binomial Model
Date of grant	12 September 2006
Closing share price at the date of grant	HK\$1.30
Exercise price per share	HK\$1.31
Annual risk-free rate	3.66%~3.92%
Expected volatility	35%
Life of the option	9 years
Expected dividend yield	0

Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK\$0.67
Exercise price per share	HK\$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	0

The share options granted on 12 September 2006 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 13/3/2007 to 31/7/2015	33.00%
From 13/3/2008 to 31/7/2015	33.00%
From 13/3/2009 to 31/7/2015	34.00%
	100%

The share options granted on and 11 August 2011 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 26 June 2015 was HK\$0.58. The following information is relevant in the determination of the fair value of options granted during the year under the 2015 Scheme:

	2015
Option pricing model	Binomial Model
Date of grant	26 June 2015
Closing share price at the date of grant	HK\$1.02
Exercise price per share	HK\$1.082
Annual risk-free rate	1.81%
Expected volatility	56%
Life of the option	10 years
Expected dividend yield	Nil

The share options granted on 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	<u>100%</u>

The fair value of share options granted is recognized as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB6,546,000 (2014: RMB907,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2015 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK\$0.6714 to HK\$1.2565. During the year, no option was exercised, hence, no weighted average share price at the date of exercise of option is disclosed. The weighted average fair value of each option granted during the year was HK\$0.51 (2014: Nil).

The number of exercisable options as at 31 December 2015 is 11,885,859 (2014: 5,942,929) (granted in 2011). The weighted average remaining contractual life of the outstanding options as at 31 December 2015 is 8.25 years (2014: 2.34 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of loss before income tax to net cash from operating activities

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Loss before income tax	(208,483)	(168,326)
<i>Adjustments for:</i>		
Finance costs	1,813	1,871
Finance income	(21,198)	(9,035)
Equity-settled share-based payment expenses	6,546	907
Depreciation of property, plant and equipment	13,086	9,074
Amortisation of leasehold land	3,407	3,407
Exchange gain, net	76,877	(921)
Fair value changes in financial derivative asset/liabilities	(2,632)	(2,245)
Impairment loss on trade and other receivables	210	236
Gain from bargain purchase	–	(1,600)
Loss on disposal of subsidiaries, net of tax	–	15,830
Loss on disposal of property, plant and equipment	–	57
Fair value changes in investment properties	(6,736)	38,822
Write-down of properties under development/ properties held for sale	20,024	38,759
Operating loss before working capital changes	(117,086)	(73,164)
Increase in properties under Tianhe Project	(9,077)	(8,960)
Increase in properties under development	(1,551,395)	(2,086,833)
Decrease in properties held for sale	263,105	115,015
Increase in trade and other receivables	(41,019)	(78,306)
Increase/(Decrease) in trade and other payables	143,131	(11,399)
Increase in properties pre-sale deposits	2,249,035	1,323,958
Cash generated from/(used in) operations	936,694	(819,689)
Income tax paid	(83,641)	(19,385)
Other borrowing costs paid	(38,135)	(7,643)
Interest paid	(656,788)	(267,299)
Net cash from/(used in) operating activities	158,130	(1,114,016)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

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

The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

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

41. OPERATING LEASE COMMITMENTS

Lessee

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within one year	388	58

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. OPERATING LEASE COMMITMENTS (continued)

Lessor

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

	2015 RMB'000	2014 RMB'000
Within one year	13,060	18,069
Later than one year but within five years	36,838	45,811
Later than five years	20,714	28,364
	70,612	92,244

42. COMMITMENTS

	2015 RMB'000	2014 RMB'000
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	1,970,841	2,467,864
Expenditure authorised but not contracted for in respect of		
– Property construction and development costs	–	1,631,094
– Acquisition of land use rights	–	931,648
	–	2,562,742

43. CONTINGENT LIABILITIES

On 28 July 2015, a legal action was raised against the Yucheng, the project company of Zhoutouzui Project, by a Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), a wholly-owned subsidiary of Port Authority, to claim for compensation in the amount of RMB20,000,000 for the demolition and relocation of occupants of the site on which the properties are being developed. The claim was made pursuant to an agreement entered into with Port Authority and Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and Yucheng. The management considers that all demolition and relocation works have been completed and related costs fully settled by Yucheng. The claim is currently being dealt with out of court and is in the course of negotiations with the claimant and the project company. With the belief that the project company has legal grounds to contest against the claim, the directors have not made any provision in the accounts of the Group to provide for the compensation claimed by the claimant.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 31 December 2015 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

44. PLEDGE OF ASSETS

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

	2015 RMB'000	2014 RMB'000
Leasehold land and building	212,638	219,293
Investment properties	570,058	556,533
Properties under development	2,838,422	2,231,110
Properties held for sale	–	125,526
Short-term investments	460,000	200,000
Pledged deposits	652,010	297,200
	4,733,128	3,629,662

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

45. RELATED PARTY TRANSACTIONS

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

(a) Material transactions with related parties

Related party relationship	Type of transaction	2015 RMB'000	2014 RMB'000
Companies beneficially owned by Mr. YU Pan and his spouse	(a) Rental income received from office leasing	111	111
	(b) Interest expenses paid on short-term loan	–	(675)

(b) Personal guarantee by the Chairman

As at 31 December 2015, Mr. YU Pan and his spouse have provided personal guarantee to a bank in respect of banking facilities extended to the sino-foreign co-operative company, Yucheng, as set out in note 33(a).

As at 31 December 2015, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to a financial institution in respect of the trust loan facility extended to a Company's subsidiary, which are disclosed in notes 33(c) and 33(d).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Short-term benefits	13,744	10,834
Other long-term benefits	429	272
Equity-settled share-based payment expenses	3,490	655
	17,663	11,761

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

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(a) Foreign currency risk

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Derivative financial asset		
– HK\$	37	–
Cash and cash equivalents		
– US\$	1,949	34,857
– HK\$	272,034	19,273
Bank and other borrowings		
– US\$	(458,448)	(189,689)
– HK\$	(1,268,734)	(746,027)
Derivative financial liabilities		
– HK\$	(12,573)	(32)

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

	2015		2014	
	Change in exchange rate %	Increase (decrease) in loss after income tax <i>RMB'000</i>	Change in exchange rate %	Increase (decrease) in loss after income tax <i>RMB'000</i>
If United States dollar weakens against Renminbi	4%	18,260	4%	6,193
If United States dollar strengthens against Renminbi	4%	(18,260)	4%	(6,193)
If Hong Kong dollar weakens against Renminbi	4%	40,369	4%	29,071
If Hong Kong dollar strengthens against Renminbi	4%	(40,369)	4%	(29,071)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk

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

	2015		2014	
	Effective interest rate (% per annum)	Amount RMB'000	Effective interest rate (% per annum)	Amount RMB'000
Financial assets				
Fixed rate receivables				
– Short-term investments	3.50 to 3.60%	460,000	2.10% to 5.00%	244,000
– Restricted and pledged deposits	3.28 to 2.50%	652,010	3.08%	297,200
Floating rate receivables				
– Restricted and pledged deposits	0.35%	270,719	0.35%	37,644
– Loan to a non-controlling shareholder of a subsidiary	4.79%	20,400	–	–
– Other cash at bank	0.01% to 0.35%	381,058	0.01% to 0.35%	198,212
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	10.30% to 18.14%	1,329,749	12.05% to 20.00%	1,073,099
Floating rate borrowings				
– Bank borrowings	2.75% to 5.23%	1,430,074	2.75% to 7.38%	1,201,728

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

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

	2015		2014	
	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax RMB'000	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax RMB'000
Floating rate financial assets				
Increase in floating rate	100	6,722	100	2,359
Decrease in floating rate	(100)	(6,722)	(100)	(2,359)
Floating rate financial liabilities				
Increase in floating rate	500	(71,504)	500	(3,323)
Decrease in floating rate	(500)	71,504	(500)	3,323

(c) Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(d) Liquidity risk

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

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

	Total undiscounted cashflow						Carrying amount
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2015							
Trade and other payables	4,212	116,545	1,079,976	-	-	-	1,200,733
Bank and other borrowings	117,843	1,215,007	775,016	676,278	3,686	777,814	3,565,644
		(Note)	(Note)				
Guarantee for property mortgage	1,178,900	-	-	-	-	-	1,178,900
	1,300,955	1,331,552	1,854,992	676,278	3,686	777,814	5,945,277
							3,960,555
2014							
Trade and other payables	4,053	27,152	197,569	-	-	-	228,774
Bank and other borrowings	113,792	328,518	1,039,578	905,256	-	205,114	2,592,258
Guarantee for property mortgage	140,111	-	-	-	-	-	140,111
	257,956	355,670	1,237,147	905,256	-	205,114	2,961,143
							2,503,601

Note: As at 31 December 2015, the bank borrowings of the Group of approximately RMB891,591,000, were secured by standby letters of credit issued by two banks that were secured by the Group's bank deposits of RMB452,000,000 and short-term investments of RMB460,000,000 respectively maturing at the same time of the bank borrowing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

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

	2015		2014	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial assets				
Loans and receivable				
– Trade and other receivables	479,100	(Note)	467,037	(Note)
– Consideration receivable	105,000	(Note)	105,000	(Note)
– Short-term investments	460,000	(Note)	244,000	(Note)
– Loan to a non-controlling shareholder of a subsidiary	20,400	(Note)	–	–
– Restricted and pledged deposits	922,729	(Note)	334,844	(Note)
– Cash and cash equivalents	383,255	(Note)	201,105	(Note)
Fair value through profit or loss				
– Derivative financial asset	37	37	–	–
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	1,146,528	(Note)	228,774	(Note)
– Bank and other borrowings:				
the Secured Loan	434,824	454,758	–	–
the Secured Bonds	31,739	33,009	244,642	252,125
the Unsecured Bonds	168,093	170,934	–	–
others	2,125,166	(Note)	2,030,184	(Note)
Fair value through profit or loss				
– Derivative financial liabilities	12,573	12,573	32	32

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

The fair values of financial liabilities are determined as follows:

- The fair value of financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

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

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

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

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

	2015 Level 3 RMB'000	2014 Level 3 RMB'000
Financial asset at fair value through profit or loss		
– Derivative	37	–
Financial liabilities at fair value through profit or loss		
– Derivatives	12,573	32

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

	Financial asset RMB'000	Financial liabilities RMB'000	2015 RMB'000	2014 RMB'000
At 1 January	–	32	32	25,716
Issue of the Secured/Unsecured Bonds	(1,792)	16,093	14,301	–
Early repayment of Secured Loan	–	–	–	(23,715)
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,854	(4,486)	(2,632)	(2,245)
– Exchange differences	(99)	934	835	276
At 31 December	(37)	12,573	12,536	32

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

During the year ended 31 December 2015, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Financial asset/ liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Conversion option	Level 3	Binomial Option Pricing Model	Underlying share price	Higher share price, higher conversion option value
				Volatility	Higher volatility, higher conversion option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Extension option	Level 3	Binomial Option Pricing Model	Effective interest rate (discount rate)	Higher effective interest rate, lower extension option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short- term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short- term volatility parameter, higher the company redemption rights

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2015

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current assets		
Interests in subsidiaries	3,277,323	3,323,108
Derivative financial asset	37	–
	<u>3,277,360</u>	<u>3,323,108</u>
Current assets		
Amounts due from subsidiaries	3,478	2,298
Prepayments and other receivables	13,999	8,695
Cash and cash equivalents	266,096	18,523
	<u>283,573</u>	<u>29,516</u>
Current liabilities		
Accruals and other payables	5,253	14,716
Amounts due to subsidiaries	1,287,077	1,409,513
Other borrowings – current portion	340,239	422,642
Derivative financial liabilities – current portion	–	32
	<u>1,632,569</u>	<u>1,846,903</u>
Net current liabilities	<u>(1,348,996)</u>	<u>(1,817,387)</u>
Total assets less current liabilities	<u>1,928,364</u>	<u>1,505,721</u>
Non-current liabilities		
Other borrowings – non-current portion	746,656	150,457
Derivative financial liabilities – non-current portion	12,573	–
	<u>759,229</u>	<u>150,457</u>
Net assets	<u>1,169,135</u>	<u>1,355,264</u>
Capital and reserves		
Share capital	21,068	21,068
Reserves	1,148,067	1,334,196
Total equity	<u>1,169,135</u>	<u>1,355,264</u>
On behalf of the Board		

YU Pan
Director

WEN Xiaobing
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

49. RESERVES OF THE COMPANY

	Share premium <i>RMB'000</i>	Contributed surplus reserve <i>RMB'000</i>	Share-based payment reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	1,507,182	16,116	13,505	(81,528)	1,455,275
Recognition of equity-settled share-based payment expenses	-	-	907	-	907
Reallocation of lapsed options from share-based payment reserve to accumulated losses	-	-	(2,260)	2,260	-
Loss for the year	-	-	-	(121,986)	(121,986)
As at 31 December 2014 and at 1 January 2015	1,507,182	16,116	12,152	(201,254)	1,334,196
Recognition of equity-settled share-based payment expenses	-	-	6,546	-	6,546
Reallocation of lapsed options from share-based payment reserve to accumulated losses	-	-	(8,122)	8,122	-
Loss for the year	-	-	-	(192,675)	(192,675)
At 31 December 2015	1,507,182	16,116	10,576	(385,807)	1,148,067

50. PRINCIPAL SUBSIDIARIES

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	(a), (c)	3,277,323	3,323,108
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	(b)	21,464	20,285
Less: Provision for impairment loss		(17,986)	(17,987)
		3,478	2,298
		3,280,801	3,325,406
Amounts due to subsidiaries	(b)	(1,287,077)	(1,409,513)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2015 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
Fine Luck Group Limited	BVI	United States dollar ("US\$")	100%	–	Investment holding
Fortunate Start Investments Limited	BVI	US\$100	–	100%	Investment holding
Graceful China Limited	Hong Kong	HK\$1	100%	–	Group treasury
廣州市創譽投資管理 諮詢有限公司 (前稱廣州市創譽房地產 有限公司) (Guangzhou Chuanghaoyu Investment Management Consulting Company Limited ("Chuanghaoyu") (Formerly named as Guangzhou Chuangyu Real Estate Company Limited)	PRC	US\$6,000,000	–	100%	Provision of investments management services, property management, property sales and leasing
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)	PRC	RMB53,000,000	–	100%	Provision of property management services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)	PRC	HK\$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK\$100	–	100%	Investment holding
Long World Trading Limited	BVI	US\$1	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited) ("Nanning Jucheng")	PRC	RMB50,000,000	–	80%	Property development in the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

- (c) Summarised financial information on subsidiaries with material non-controlling interests
Set out below are the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Nanning Jucheng		YZ Tianyu Real Estate	
	As at 31 December		As at 31 December	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Assets	2,883,855	1,724,835	254,326	440,819
Liabilities	(2,884,822)	(1,694,538)	(337,870)	(476,471)
	(967)	30,297	(83,544)	(35,652)
Non-current				
Assets	1,307	406	755	924
Liabilities	-	-	-	-
	1,307	406	755	924
Net assets/(liabilities)	340	30,703	(82,789)	(34,728)
Accumulated non-controlling interests	68	6,141	(24,837)	(10,418)

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng		YZ Tianyu Real Estate	
	For the year ended		For the year ended	
	31 December		31 December	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	-	-	269,427	102,106
Loss before income tax	(30,363)	(19,781)	(24,245)	(47,833)
Income tax expense	-	-	(23,816)	(1,218)
Loss after tax and total comprehensive income	(30,363)	(19,781)	(48,061)	(49,051)
Loss allocated to non-controlling interests	(6,073)	(989)	(14,418)	(14,715)
Dividends paid to non-controlling interests	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

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

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Real Estate For the year ended 31 December	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Cash flows from operating activities				
Cash generated from/(used in) operations	391,104	(254,195)	30,735	3,309
Income tax paid	(41,052)	(10,263)	(3,916)	(8,582)
Other borrowing costs paid	-	-	(610)	(811)
Interest paid	(52,215)	(43,489)	(5,749)	(9,575)
Net cash from/(used in) operating activities	297,837	(307,947)	20,460	(15,659)
Cash flows from investing activities				
Interest received	650	723	155	261
Purchase of property, plant and equipment	(1,226)	(494)	-	(31)
Acquisitions of short-term investments	-	(7,500)	(35,000)	(29,000)
Disposal of short term investments	7,500	-	64,000	-
Increase in restricted and pledged deposits	(3,798)	(33,042)	-	-
Net cash from/(used in) investing activities	3,126	(40,313)	29,155	(28,770)
Cash flows from financing activities				
New bank and other borrowings	-	-	-	30,000
Repayment of bank and other borrowings	-	-	(145,000)	(10,000)
Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries	(185,536)	354,476	70,698	(9,680)
Loan to shareholders	(102,000)	-	-	-
Net cash (used in)/from financing activities	(287,536)	354,476	(74,302)	10,320
Net increase/(decrease) in cash and cash equivalents	13,427	6,216	(24,687)	(34,109)
Cash and cash equivalents at beginning of year	45,058	38,842	43,375	77,484
Cash and cash equivalents at the end of year	58,485	45,058	18,688	43,375

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

51. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 18 March 2016.

FIVE YEAR FINANCIAL SUMMARY

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

	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
RESULTS					
<i>For the year ended 31 December</i>					
Revenue	306,321	157,870	675,706	53,803	32,951
(Loss)/profit before income tax	(208,483)	(168,326)	140,911	(113,773)	(69,429)
Income tax (expense)/credit	(23,781)	8,346	(28,238)	(8,157)	7,600
(Loss)/profit before income tax	(232,264)	(159,980)	112,673	(121,930)	(61,829)
Attributable to					
– Owners of the Company	(211,769)	(141,252)	63,989	(79,976)	(51,861)
– Non-controlling interests	(20,495)	(18,728)	48,684	(41,954)	(9,968)
	(232,264)	(159,980)	112,673	(121,930)	(61,829)
FINANCIAL POSITION					
<i>At 31 December</i>					
Total assets	10,357,027	6,924,966	5,007,247	4,703,820	4,417,261
Total liabilities	(8,848,022)	(5,189,352)	(3,081,598)	(2,900,903)	(2,792,111)
Net assets	1,509,005	1,735,614	1,925,649	1,802,917	1,625,150
Non-controlling interests	(5,065)	(25,560)	(75,668)	(18,484)	(60,438)
Equity attributable to owners of the Company	1,503,940	1,710,054	1,849,981	1,784,433	1,564,712

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Site area (sq.m.)	Development type	Gross floor area (GFA) (sq.m. approx.)	Effective equity interest % held	Stage of development	Anticipated completion of construction	Market value in existing state RMB'000	Market value attributable to the Group RMB'000	Carrying book value RMB'000	Carrying book value attributable to the Group RMB'000
(A) Details of the Group's properties under development/held for sale at 31 December 2015 are as follows:											
1. Zhoutouzui Project: Skyfame Byland, the north of Machong, west of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	2009 to 2049/ 2059/ 2079	43,609	Above ground: Residential Hotel/ Serviced apartment Office Commercial Refuge floor, open floor and municipal facilities Kindergarten Reserved building Underground: Commercial (Club house) Carparks (2,093 lots) Utility rooms and others Total	148,552 8,275 26,067 3,069 24,820 2,881 213,664 5,904 219,568 1,225 79,654 18,643 99,522 319,090	100%	Construction in progress	2017	4,500,000 (Note 1)	4,500,000 (Note 2)	2,838,422	2,838,422
2. Nanning Skyfame Garden Project: Nanning Skyfame Garden, Liangxing Road, Wuxiang New District, Nanning, Guangxi Zhuang Autonomous District, the PRC.	2014 to 2054/ 2084	231,563	Commodity portion Residential Commercial Public facilities & podium Primary School Carparks (5,933 lots) Resettlement portion Residential Commercial Public facilities & podium Carparks (1,177 lots) Total	625,724 34,709 37,118 13,031 212,000 922,582 175,009 49,592 13,630 46,487 284,718 1,207,300	80%	Construction in progress	2016 to 2018	2,501,000 (Note 1)	2,000,800	2,451,185	1,960,948
3. Nanning ASEAN Maker Town Project: North of Wuxiang Avenue, Wuxiang New District, Nanning, Guangxi Zhuang Autonomous District, the PRC.	2015 to 2055/ 2065/ 2085	194,221	Shopping arcade Shopping mall Office in landmark tower Hotel in landmark tower Hotel facilities building Side tower High-rise office High-rise residential Public facilities Basement - Carparks - Shopping arcade Total	70,213 9,000 198,882 40,928 9,342 58,620 188,340 526,323 7,253 280,283 16,000 1,405,184	100%	Construction in progress	2018 to 2022	1,070,000 (Note 1)	1,070,000	819,764	819,764
4. Yongzhou Project: Tianyu Huafu, Junction of Yangming Avenue, Xiangkouguan Road and Lizhi Road, Lingling District, Yongzhou, Hunan Province, the PRC.	2011 to 2051/ 2081	70,950	Completed Commercial Low rise residential High rise residential Villa Carparks (568 lots) Under development Commercial High rise residential Total	20,179 489 8,201 12,811 6,782 48,462 1,928 23,507 25,435 73,897	70%	Completed Construction in progress	2014 to 2016	428,000 (Note 1)	299,600	277,755	194,429
				3,005,471				8,499,000	7,870,400	6,387,126	5,813,563

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Usage	Gross floor area (GFA) (sq.m. approx.)	Effective equity interest % held	Market value in existing state RMB'000	Market value attributable to the Group RMB'000
(B) Details of the Group's investment properties at 31 December 2015 are as follows:						
1. Retail units on 2/F and 5/F, 22 units on mezzanine floor and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040	Office/retail	17,343	100%	448,000 (Note 1)	448,000
2. Unit 02-05, 14th Floor AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong.	1928 to 2027	Office	813	100%	122,058 (Note 3)	122,058
			18,156		570,058	570,058
(C) Details of the Group's leasehold land and building at 31 December 2015 are as follows:						
1. Office units on levels 32 and 33 of HNA Tower, suited at 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province the PRC	2001 to 2051	Office	4,126	100%	156,800 (Note 1)	156,800
2. Retail units on 6/F of the commercial podium, Tianyu Garden Phase 2, situated at 138 and 146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2000 to 2040	Office/retail	2,448	100%	53,000 (Note 1)	53,000
3. Unit 01, 14th Floor and Car Parking Space Nos.307 and 308 on 3rd Floor, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong.	1928 to 2027	Office/car parking	534	100%	83,203 (Note 3)	83,203
			7,108		293,003	293,003
Total (A to C)					9,362,061	8,733,461

Notes:

- The properties under development/held for sales and completed properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung International Property Advisers (Guangzhou) Co., Limited, Chartered Surveyors, as at 31 December 2015. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.
- The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese co-operative joint venture partner.
- The properties were revalued on an open market value basis by an independent firm of professional valuers, RHL Appraisal Limited, Chartered Surveyors, as at 31 December 2015.