SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

ANNUAL REPORT 2014

Contents

Introduction of the Group

SRE Group Limited ("the Company") and its subsidiaries ("the Group") are an integrated real estate developer specializing in property development business. The shares of the Company have been listed on the Hong Kong Exchange and Clearing Limited (the "HKEx") since 10 December 1999.

Geographically, Shanghai is the base for the Group's real estate development business. The Group has been gradually expanding into capitals of various provinces and regional hubs with strong economic development potentials. While we are mainly a developer for medium-to-high-end residential properties, we have been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer.

Properties developed by the Group under the brand names of "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoy a good reputation in both onshore and offshore markets including Shanghai, Shenyang, Haikou, Wuxi and Hong Kong.

Financial Summary

Summary of Results

(Prepared according to accounting principles generally accepted in Hong Kong)

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Turnover, net	**1,440**	3,344	3,582	6,786	6,289
Gross Profit	**307**	956	1,000	1,867	2,539
Profit before Taxation	**568**	500	504	738	1,531
Taxation	**(424)**	(295)	(196)	(319)	(815)
Profit after Taxation	**144**	205	308	419	716
Non-controlling Interests	**(250)**	(5)	59	78	(86)
(Loss)/profit Attributable to owners of parent	**(106)**	200	367	497	630
Proposed Dividends	**–**	(60)	–	–	(105)
(Loss)/earnings per share					
– Basic	**(1.87) Cents**	3.53 Cents	6.85 Cents	11.41 Cents	16.90 Cents
– Diluted	**(1.87) Cents**	3.53 Cents	6.85 Cents	11.41 Cents	16.29 Cents

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Total Assets	**37,327**	32,040	29,355	43,656	40,742
Total Liabilities	**27,723**	22,487	19,593	30,681	29,415
Net Assets	**9,604**	9,553	9,762	12,975	11,327
Cash reserves	**2,109**	2,941	2,032	2,521	5,403
Shareholders' funds	**9,037**	9,231	9,058	10,489	8,545

	Year ended 31 December				
	2014	2013	2012	2011	2010
Return on Equity (%)	**(1%)**	2%	4%	5%	7%
Current Ratio (times)	**2.10x**	2.34x	2.00x	1.82x	1.75x
Total Liabilities to Net Assets	**2.89x**	2.35x	2.01x	2.36x	2.60x
Net Debt to Shareholders' Funds Ratio (times)*	**2.83x**	2.12x	1.94x	2.68x	2.81x

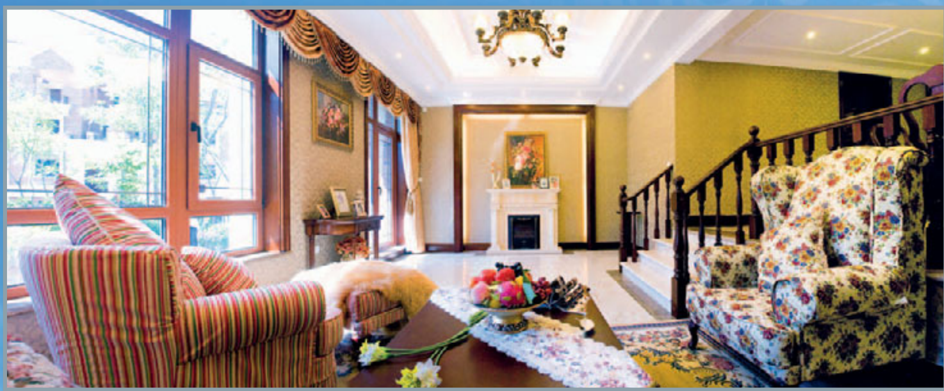
* Net Debt to Shareholders' Funds Ratio = (Total Liabilities – Cash and Bank balances) / Shareholders' funds

Shanghai
Project



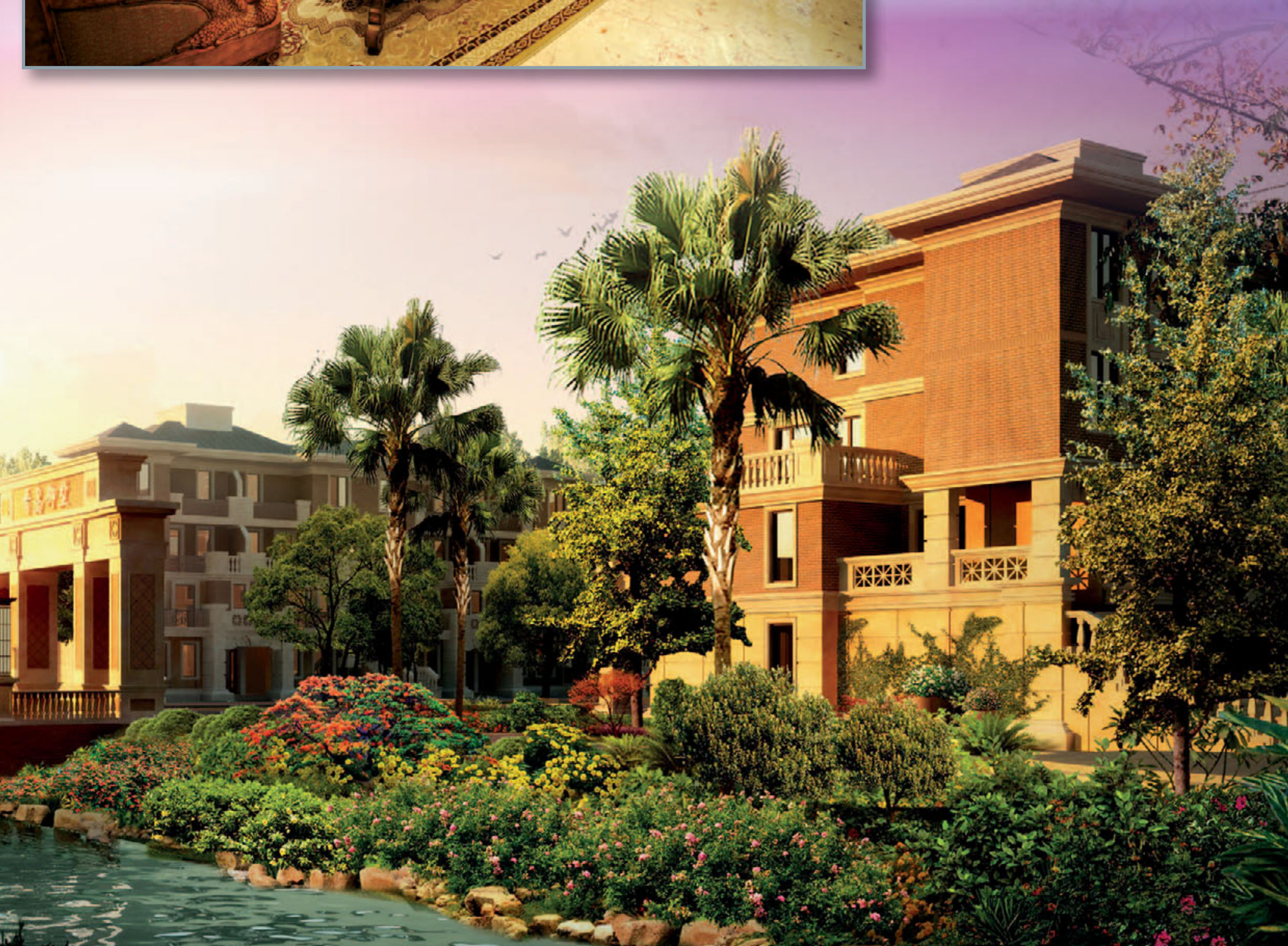
Shanghai
Project

Shenyang Project




Jiaxing Project

Wuxi
Project



Haikou
Project


WESTIN

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I would like to present the annual report for the results of SRE Group Limited for the year ended 31 December 2014 to you.

Business Review

In 2014, the Group's major projects available for sale were Shanghai Albany Oasis Garden, SRE Financial Centre, Cedar Villa Original, Oasis Central Ring Centre, Huating Project (previously known as "Bairun Project") and Shanghai Lake Malaren Garden in Shanghai; Jiaxing Project in Zhejiang; Haikou Bund Centre in Haikou and Shenyang Albany Oasis Garden in Liaoning. From January to December 2014, the Group's contracted sales amounted to HK$1.779 billion, with a total gross floor area of approximately 41,000 square meters.

Project Company	**Amount of Sales Contracts Signed** *(HK$'000)*	**Contractual Gross Area** *(m^2)*
Shanghai Albany Oasis Garden	1,287,327	17,144
SRE Financial Centre	134,616	2,519
Shanghai Cedar Villa Original	97,978	3,214
Shenyang Albany Oasis Garden	77,314	10,327
Shanghai Oasis Central Ring Centre	61,559	1,578
Huating Project	40,523	441
Shanghai Lake Malaren Garden	27,834	1,086
Jiaxing Project	17,436	1,702
Haikou Bund Centre	14,458	777
Shanghai Rich Gates Seaview	10,374	622
Other Projects	9,930	1,551
Total	1,779,349	40,961

In 2014, the Group recorded a net turnover of HK$1.440 billion (2013: HK$3.344 billion). Gross profit for 2014 amounted to approximately HK$0.307 billion (2013: HK$0.956 billion). Gross profit margin for 2014 was about 21.3% (2013: 28.6%).
Net turnover breakdown by activity

Net turnover breakdown by activity:

Turnover	**2014** (*HK$'000*)	2013 (***HK$'000***)
Sale of development properties	**1,021,621**	3,057,046
Hotel operations	**194,757**	195,092
Revenue from property leasing	**115,685**	96,596
Property management revenue	**172,205**	154,210
Revenue from construction of infrastructure for an intelligent network	**21,914**	35,262
Other revenue	**15,486**	14,801
Less: Business tax and surcharges	**(101,712)**	(208,729)
Total revenue	**1,439,956**	3,344,278

Under the influence of the macro environment that the real estate market had been going downhill continually and that the transaction volume significantly declined, the Group's revenue from sales of properties for 2014 substantially decreased as compared with the preceding year.

Chairman's Statement

Development Projects

Our development projects mainly included Shanghai Albany Oasis Garden and Huating Project in Shanghai, and Shenyang Albany Oasis Garden and Yosemite Oasis Community in Liaoning.

Relocation for Land of Development Projects

Shanghai Albany Oasis Garden

As at the end of December 2014, save for parcel A for which the evacuation and demolition has not yet started, 6,214 households representing 98.1% of the total had been relocated while all economic enterprises had been relocated. The former covered all households of Phase III which had been 100% relocated.

Rich Gate I (Qinhai Oasis Garden)

As at the end of December 2014, with 891 households and 1 enterprise relocated, households relocation for Rich Gate I project was 39.7% completed and enterprises relocation for Rich Gate I project was 2.4% completed. The project was included in the precinct for 2014 urban renewal for both Shanghai Municipality and Huangpu District, and the House Acquisition Agreement had been signed with Shanghai Huangpu District Construction and Traffic Committee.

Shenyang Albany Oasis Garden

As at the end of December 2014, with 1,393 households (area: 90,259 m^2) and 13 enterprises (area: 3,062 m^2) relocated, relocation was 84% completed, which lay a solid foundation for the development of Phase III.

Construction Work

Shanghai Albany Oasis Garden

As of the end of 2014, the structures of Shanghai Albany Oasis Garden Phase III block 1 to block 4 and block 7 were topped out. It is expected that the structures of block 5 and block 6 will be topped out in May 2015; the structures of block 8 and block 9 will be topped out in July 2015, and the structures of block 10 and block 12 will be topped out in December 2015. It is expected that construction of Phase III will be completed in August 2016.

Huating Project

As of December 2014, the main structures of block 1 to block 5 and block 7 of Huating Project were completed, while surface insulation and water proof works of block 6 were in process. It is expected that construction works will be completed by June 2016.

Shenyang Yosemite Oasis Community

The East Parcel of Shenyang Yosemite Oasis Community consists of 502 houses. For the 200 houses located at Jinling Section, construction was completed and titles have been transferred to buyers in June 2014. For the 302 units located at Shuangxing Section, the main structures have been topped out, the construction of ancillary facilities was 85% completed. It is expected that these houses will be completed with the sold units ready for handover to buyers in July 2015.

Shenyang Albany Oasis Garden

Regarding Shenyang Albany Oasis Garden Phase II, as of December 2014, the exterior wall insulation works for block 1, block 2 and block 4 were 95% completed, the stone walls were 95% completed, and the exterior wall insulation works for Carrefour (家樂福) were entirely completed. It is expected that construction of Section A of Phase II will be completed in 2015, and construction of Section B will be completed in 2016.

Commercial Properties

The Group has five major commercial real estate projects: four in Shanghai and one in Shenyang. Under the influence of the prevailing austerity measures, the suppressed housing market has nonetheless underscored the trend of increasing investment toward commercial real estate as the prospect of which becomes more promising. The stable development of commercial real estate will make an increasingly important contribution to our revenue.

Commercial Property	Location	Details
Shanghai Skyway Pullman Hotel	Huangpu District, Shanghai	309 rooms
SRE Financial Centre	Huangpu District, Shanghai	Approx. 28,000 m^2
Oasis Central Ring Centre	Putuo District, Shanghai	96,146 m^2
Shanghai Shuocheng Supermarket	Zhabei District, Shanghai	Approx. 24,000 m^2
Shenyang Rich Gate Shopping Mall	Financial Golden Corridor, Shenyang	245,252 m^2

Chairman's Statement

The Group's Awards

1. SRE Group was named as "2014 China Top 10 Property Developers – Tourist Property", "2014 China Top 100 Real Estate Companies".

2. Shanghai Albany Oasis Garden was named as "2014 City Centre High End Residential Property Model Prize" by《新民晚報》, and as "2014 Most Livable Home for Humanities" by《第一地產》and "2014 Most Influential Property Project" by Sohu and Sohu Focus.

3. Shanghai Shuo Cheng Real Estate Limited was named as "Five-star Trustworthy Enterprise" of Shanghai city.

4. Jiaxing Project – 上置香島瀾灣 was awarded "the City Golden Horse Prize – the Quintessence of the Most Influential Luxury Home in Jiaxing" by Jiaxing Daily《嘉興日報》and "the Quintessence of Elegant and Fashionable Jiaxing Lakeview Residence" by Tencent.

5. Shanghai Wingo Infrastructure Co. Ltd. obtained GB/T 19001-2008/ISO 9001:2008 "Quality Management System" and GB/T 50430-2007 "Quality Management Standards for Construction and Engineering Enterprise".

Business Outlook

In May 2014, on a month-on-month basis, the average price of residential properties of one hundred cities declined for the first time after rising for 23 months consecutively, falling 0.32%. In September, the decline expanded to 0.92%. In the fourth quarter, the decline narrowed, and in December, the average price fell 0.44% on a month-on-month basis. The property prices of the hundred cities hence fell continuously. Supply exceeded demand in major cities. The growth rate of investment in real estate development fell to a new low for the past 5 years. In the financial arena, the equity capital market was reopened; the issuance of medium term notes became less restrictive; there were more equity financing and debt financing activities by listed property companies, and financing channels became more diversified. Government policies focused on stability. The adjustment of monetary policies together with long term and effective measures such as reform of household register and shanty area transformation helped maintain home purchase demand at a reasonable level. The measures of purchase restrictions and mortgage restrictions were gradually removed; the administrative interference was weakening; owing to all these and owing to several rounds of policy adjustments for credits and loans against provident fund and government subsidies, demand for residential properties was stimulated, accelerating the reduction of inventory of residential properties and stabilizing spending in home purchase. The controlling measures as a whole emphasized more on supporting rational spending in home purchase, and would stimulate the vitality of the property market in the medium to long run, and would be beneficial to the stable and healthy development of the real estate market.

According to the Statistical Communique on the 2014 National Economic and Social Development published by the China National Statistics Bureau, total investment in real estate development in 2014 amounted to RMB9.5036 trillion, an increase of 10.5% over the previous year, of which, investment in residential buildings accounted for RMB6.4352 trillion, an increase of 9.2%; investment in office buildings accounted for RMB564.1 billion, an increase of 21.3%; investment in commercial properties accounted for RMB1.4346 trillion, an increase of 20.1%.

Chairman's Statement

In 2014, investment in real estate development in Shanghai amounted to RMB320.648 billion, representing a year-on-year increase of 13.7%. A total area of 20.8466 million m^2 of commodity properties were sold throughout the year, representing a decrease of 12.5%, of which, total area of commodity housing amounted to 17.8091 million m^2, representing a decrease of 11.7%. Sales of commodity properties amounted to RMB349.953 billion, representing a decrease of 10.5%, of which, sales of commodity housing amounted to RMB292.344 billion, representing an increase of 10.4%.

2015 is a critical year for the deepening of the no holds barred reform. The central government will actively develop a new model of urbanization which shall become a new driving force for the growth of the economy. At the same time, policies in terms of monetary, fiscal and tax measures for the purpose of supporting reasonable spending on home purchase will be further strengthened. The austerity measures to rein in the real estate sector will revert to market-orientated measures. The policies of local governments will become more flexible. Policies with long term effects including inter alia promulgation of real estate tax laws, land system reform and other reforms will gradually replace short term regulatory measures. The government's work report emphasizes on stabilizing home purchase spending, policy differentiation for various segments, geographically-orientated policies, imposing primary responsibilities over local governments, supporting self-use demand and improvement-of-living condition demand for housing, and helping improve the stable and healthy development of the real estate market. Under such circumstances, the mode of competition amongst property companies will become "quality-focused and differentiation-oriented".

The real estate industry will accelerate its pace of transformation towards liberalization. The growth rate will return to a level which is reasonable and sustainable. For real estate enterprises, profits to be generated from residential property development will continue to be squeezed, and they need to make changes or at least adjustments according to the characteristics of their own businesses and their resources level. In 2015, the Group will economically face a period of gear changing. It will also be the period for it to digest the high financial leverage resulted from its expansion in the past. Owing to the commencement of sales of Shanghai Albany Phase III, Shanghai Huangpu Huating, and Shenyang Albany Phase II, and the commencement of relocation works of Shanghai Rich Gate I and Shanghai Albany Phase IV, the Group's sales for the coming 5 years will have a chance to be significantly increased. When the relocation projects start to move and sales revenue starts to roll in, the problem of high financial leverage will be resolved. In the next round of reshuffling, taking advantage of the opportunity arising from the market reform towards liberalization, the Group will expeditiously adjust it strategies so as to: through reallocation of its resources, improve its operating capabilities, and at the same time enhance its efficiency over investment, cost control, marketing and others; through ushering in fund houses and offloading assets, diversify its sources of income; through promoting innovative product packages with financial products embedded in the sale of properties and monetization of real estate business, reduce its financial costs and shorten the turn-around time of its projects; abandon the conventional mode of development and develop new projects with emphasis on themes of the projects and orientation towards the youth. In 2015, the Group will focus more in Shanghai, and will, through reallocation of its resources and readjustment of its product mix, endeavor to maintain a stable growth.

Shi Jian
Chairman

27 March 2015

Directors and Management

Directors

Executive Directors

Mr. Shi Jian, aged 61, is the Chairman of the Board, the Chairman of the Nomination Committee as well as the founder of the Group. Mr. Shi is responsible for the formulation of the Group's development strategy. Mr. Shi served in the People's Liberation Army from 1970 to 1986. From 1986 to 1993, Mr. Shi was an administration manager of Shanghai Rainbow Hotel. From 1993 to 1995, he was the general manager of the Universal Mansion project. Mr. Shi has nearly 30 years' experience in property investment and corporate operation. Mr. Shi Jian is the founder, an Executive Director and concurrently a Vice Chairman of the board of directors of China New Town Development Company Limited ("CNTD"), a company listed on the Singapore and Hong Kong Stock Exchange (Singapore stock code: D4N.si and Hong Kong stock code: 1278). Mr. Shi Jian is the spouse of Md. Si Xiao Dong, the Director of various companies of our Group, and the uncle of Mr. Shi Lizhou, an Executive Director of the Company. Mr. Shi is the ultimate controlling shareholder of the Company. He also sits on the boards of various companies of our Group.

Mr. Wang Zi Xiong, aged 60, was appointed as a Vice Chairman and an Executive Director of the Board on 1 April 2013 and was appointed as the Chief Executive Officer of the Group on 14 August 2014. He joined the Group in April 2004 and served as the Chief Financial Officer of the Group from 27 December 2012 to 13 August 2014. Mr. Wang graduated from the Agricultural College of Shanghai Jiaotong University with a college degree in finance in 1986, and is an economist. Mr. Wang started working in the Agricultural Bank of China Shanghai Branch in March 1979, and had been the deputy director of Credit Department of the Agricultural Bank of China Shanghai Branch and the head of the Agricultural Bank of China Jing'an Branch. He has 26 years' experience in the financial sector. Mr. Wang was appointed as a president of SRE Investment Holding Limited, the controlling shareholder of the Company, in 2004. Mr. Wang was a director of Shanghai Jinwu Real Estate Co., Ltd. from September 2009 to July 2010 and from February to March 2013. He has also been a director of Shanghai Skyway Hotel Co., Ltd. since November 2008.

Mr. Ma Dayu, aged 53, was appointed as an Executive Director on 5 February 2015. Mr. Ma is a president and the Chief Engineer of the Group. He joined the Group in June 1999 and had been members of the senior management of various subsidiaries of the Group, principally responsible for project development and construction technology works. Mr. Ma graduated in architecture at the Shanghai Tongji University in 1983. He obtained the Certificate of Senior Engineer in Real Estate from the Shanghai Housing & Land Administration Bureau in 1998 and was awarded a MBA degree by the Princeton University in 2005. Mr. Ma had once worked in Shanghai Metallurgical Design Institute, responsible for architectural design, and had once been the Secretary of its Commission of the Communist Youth League. He had also been a manager of the engineering department of Shanghai Jinqiao Export Processing Zone Development Co., Limited and a vice-general manager of Shanghai Dongzhan Real Estate Development Co., Limited.

Mr. Li Genfa, aged 53, was appointed as an Executive Director on 5 February 2015. Mr. Li holds a bachelor degree in engineering from Shanghai University (then known as the Shanghai University of Technology) and a bachelor degree in law from Shanghai Jiao Tong University. He obtained the Certificate of Engineer in Industrial Automation from the Professional and Technical Evaluation Committee of the Shanghai University of Technology in 1989. Mr. Li joined the Group in June 2002, and had been members of the senior management of various subsidiaries of the Group. Since 2009, he has been a vice-president and the General Manager of Information Resources Department of the Group. He has also become the General Manager of Shanghai Dinan Real Estate Development Ltd, a subsidiary of the Group since September 2014. Prior to joining the Group, Mr. Li had been a vice-general manager of Shanghai Hollywood Real Estate Corporation and the General Manager of Shanghai Jiajiale Chain Supermarket Co., Ltd. and Shanghai Pudong Critical Information System Co., Ltd.

Directors and Management

Mr. Zhang Hongfei, aged 38, was appointed as an Executive Director on 1 November 2011. He holds a master degree in economics from Shanghai University and a professional graduation certificate in industrial foreign trade from the Wuhan Institute of Technology (then known as the Wuhan Institute of Chemical Technology). Between 1996 and 1998, Mr. Zhang worked in the office of external affairs of Sanmenxia Chemical Machinery Co., Ltd. Since joining the Group in 2001, Mr. Zhang had held various positions such as the deputy general manager and the general manager of the asset management department of the Group. He currently acts as the general manager and the chairman of the board of various property project companies of the Group. Mr. Zhang has over 10 years of experience in foreign trade, asset management, property development and property operation.

Mr. Shi Lizhou, aged 32, was appointed as an Executive Director on 1 November 2011. He holds a master degree in global financial management from Northumbria University at Newcastle Upon Tyne, the United Kingdom and a bachelor degree in finance from Lancaster University, the United Kingdom. Mr. Shi has over 7 years of experience working in the field of property development in the Company. He has been the co-general manager of Shanghai Zhufu Property Development Co., Ltd., a subsidiary of the Company, since June 2007 and has become the general manager in corporate finance of the Company since March 2010. He also served as an assistant president and a deputy director of CNTD from 30 November 2010 to 29 March 2012. Currently, he is also the general manager of the Group's Huating Project in Shanghai. Mr. Shi is the nephew of Mr. Shi Jian, the Chairman of the Board.

Non-executive Directors

Mr. Cheung Wing Yui, aged 65, was appointed as a Non-executive Director of the Company since 1999. He is also a member of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Cheung has been a practicing lawyer in Hong Kong since 1979 and admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. He is currently a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors and notaries, and a court member of the Open University of Hong Kong and a director of The Community Chest of Hong Kong. Mr. Cheung is also a director of a number of listed companies in Hong Kong including Tianjin Development Holdings Limited, Tai Sang Land Development Limited, Hop Hing Group Holdings Limited and Agile Property Holdings Limited, and a director and vice chairman of Sunevision Holdings Limited and SmarTone Telecommunications Holdings Limited. He retired as a director of Taifook Securities Group Limited and Ching Hing (Holdings) Limited in 2007 and Ping An Insurance (Group) Company of China, Ltd in 2009.

Mr. Jin Bing Rong, aged 66, was appointed as a Non-executive Director of the Company on 1 April 2007. He is also a member of the Audit Committee of the Company. Mr. Jin graduated from Fudan University in 1984 and obtained a master degree in international finance in 1997. Mr. Jin has over 20 years' experience in banking and was the former president of the Shanghai branch of the Agricultural Bank of China. Mr. Jin had been working with the Agricultural Bank of China since 1981 and had served as the president of various branches in Shanghai during his 20-plus years' career with the bank.

Directors and Management

Independent Non-executive Directors

Mr. Zhuo Fu Min, aged 63, was appointed as an Independent Non-executive Director of the Company on 30 November 2010. He is also a member of the Audit Committee, a member of the Investment Committee, a member of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983 and obtained a master degree in Economics from Fudan University in 1997. Mr. Zhuo served senior positions such as the assistant officer and the head of the administrative office of the Shanghai Economic System Reform Committee. Subsequently, Mr. Zhuo held various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited, a company listed on the HKEx (stock code: 363) and the chairman and an Executive Director of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo is devoted to private equity investment since 2002, he was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group which is a global venture capital fund management company. Mr. Zhuo co-founded SIG Capital Limited. Since 2008, Mr. Zhuo has been a partner of GGV Capital. Mr. Zhuo was previously a Non-executive Director of Grandhope Biotech Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300238) and an Independent Non-executive Director of Focus Media Holding Limited, a company listed on NASDAQ (former stock code: FMCN, currently privatized). Currently, Mr. Zhuo is a Non-executive Director of Daqo New Energy Corp., a company listed on the New York Stock Exchange (stock code: DQ) and a Independent non-executive Director of Besunyen Holdings Company Limited, a company listed on the HKEx (stock code: 926). He also serves as an Independent Non-executive Director of Shenyin Wanguo (H.K.) Limited, a company listed on the HKEx (stock code: 218) and an Independent Non-executive Director of China Enterprise Company Limited, a company listed on the Shanghai Stock Exchange (stock code: 600675).

Mr. Chan, Charles Sheung Wai, aged 61, was appointed as an Independent Non-executive Director of the Company on 10 July 2012. He is also the Chairman of the Remuneration Committee, the Chairman of the Audit Committee and a member of the Investment Committee. Mr. Chan obtained a Bachelor of Commerce degree at the University of Manitoba, Canada in 1977. He is a member of the Chartered Accountants of Canada as well as a member of the Hong Kong Institute of Certified Public Accountants. He started his career as an audit staff at the Canadian office of Arthur Andersen in 1977 and was admitted to partnership in 1988. He subsequently joined the China/Hong Kong office of Arthur Andersen as an audit partner in 1994. For the period from July 2002 to June 2012, he was a partner of the China/Hong Kong Office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of The Stock Exchange of Hong Kong Limited during the period from 1998 to 2001 and also served as a member of the Selection Committee for the first Legislative Council of the Hong Kong Special Administrative Region in 1998. From 1996 to 1999, he was a council member of the Hong Kong Society of Certified Public Accountants (the "Society"). He had also served as a member of the Accounting Standards Committee of the Society, a member of the Auditing Standards Committee of the Society and the Chairman of the China Technical Committee of the Society. Mr. Chan is currently an Independent Non-executive Director of Changyou.com, a company listed on NASDAQ (stock code: CYOU).

Directors and Management

Mr. Yang Chao, aged 65, a Senior Economist, was appointed as an Independent Non-executive Director of the Company and the Chairman of the Investment Committee on 22 November 2013. Mr. Yang graduated from Shanghai International Studies University and Middlesex University in the United Kingdom, majoring in English and Business Administration, and obtained a Master's degree in Business Administration. Mr. Yang has more than 30 years of experience in insurance and banking industries, and was awarded special allowance by the State Council. From 2011, Mr. Yang served as a member of National Committee of the 11th and 12th Chinese People's Political Consultative Conference. Mr. Yang became the Chairman of the China Life Insurance Company Limited in July 2005 (till June 2011), the President and secretary of party committee of China Life Insurance (Group) Company in May 2005 and the Chairman of China Life Property and Casualty Insurance Company Limited in December 2006. Between 2000 and 2005, Mr. Yang was the Chairman and General Manager of both China Insurance (Holdings) Company Limited and China Insurance H.K. (Holding) Company Limited.

Mr. Guoping, aged 65, a level 1 national senior prosecutor, was appointed as an Independent Non-executive Director of the Company, a member of the Audit Committee and a member of the Nomination Committee on 13 October 2014. Mr. Guo graduated from East China University of Politics and Law with a bachelor's degree in law in September 1997 and graduated from an EMBA in Finance and Accounting from Shanghai National Accounting Institute in August 2006. Mr. Guo had been the vice-chairman, the deputy secretary of Communist Party of China committee and the secretary of disciplinary committee of Shanghai International Group Co., Ltd. from August 2003 to May 2010 and a director of the Bright Food (Group) Co., Ltd. from March 2004 to May 2011. Mr. Guo was the Chairman of the Board of supervisors of Changjiang Pension Insurance Co., Ltd from May 2007 to May 2011 and an Independent Director of this Company from June 2011 to present. Mr. Guo was the chairman of the board of supervisors in China International Fund Management Co., Ltd. from February 2006 to May 2011. Mr. Guo was also a Chairman of the board of supervisors in Jiangyin SPD Rural Bank Co., Ltd. from September 2013 to July 2014. He is currently an Independent Non-executive Director of Spring Airline Co., Ltd, a company listed on the Shanghai Stock Exchange (stock code: 601021).

Senior Management

Mr. Yuan Dexin, aged 60, is the Chief Financial Officer of the Group. Mr. Yuan graduated from Anhui Finance & Trade College (安徽財貿學院) with a college degree in accounting in June 1987 and obtained a professional qualification in accountancy in November 1993. He worked as a Finance Manager of the Second Construction and Installation Company of Ma'anshan city of Anhui (安徽馬鞍山市第二建築安裝公司) since 1976, and worked in Anhui Ma'anshan Accounting Firm (安徽馬鞍山市會計師事務所) for advisory and assurance since 1992. Mr. Yuan had also been the Finance Manager of Shenzhen Huating Industrial Co., Ltd. (深圳市華庭實業有限公司), then Shanghai Cosco-Xin Dong Real Estate Development Co. Ltd. (上海遠洋信東置業發展有限公司) and then Hanxiang (Shanghai) Real Estate Company (瀚翔(上海)置業有限公司) from 1994 to 2001. From 2001 to 2009, he first worked for Shanghai Zhongheng Real Estate Internet Marketing Ltd. (上海中衡房地產網路行銷有限公司) and subsequently for GB International Trading (Shanghai) Co. Ltd (吉信國際貿易(上海)有限公司) as their Financial Controller. Mr. Yuan joined the Group as the Financial Controller since 2009 and was appointed as the Chief Financial Officer on 14 August 2014. He was also appointed as the Chairman of the Shanghai Wingo Infrastructure Co. Ltd., a subsidiary of the Company, in July 2010. He has 38 years' experience in accounting and finance.

Management Discussion and Analysis

Financial Review

Turnover and profit attributable to shareholders

In 2014, the Group recorded net revenue of approximately HK$1,440 million (2013: HK$3,344 million), which represents a decrease by approximately 57% compared with that of 2013. Loss attributable to owners of the parent in 2014 was approximately HK$106 million while profit attributable to shareholders in 2013 was approximately HK$200 million. The performance worsened mainly because of the slackening of the property market in Mainland China.

Financial Resources and Liquidity

As at 31 December 2014, cash and bank balances amounted to approximately HK$2,109 million (2013: HK$2,941 million). Working capital (net current assets) of the Group as at 31 December 2014 amounted to approximately HK$14,534 million (2013: HK$13,791 million), representing an increase of 5% as compared with the preceding year, and the current ratio was approximately 2.10x (2013: 2.34x).

As at 31 December 2014, total liabilities to total equity increased to 2.89x (2013: 2.35x). At the end of the financial period, the Group's gearing ratio was approximately 65% (2013: 57%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately HK$2,109 million) over total capital (total equity and net borrowings).

Employees

As at 31 December 2014, the Group had retained 2,153 (2013: 2,184) employees in Hong Kong and the PRC. Total staff costs of the Group, excluding directors' remuneration, for the year under review amounted to approximately HK$171 million (2013: HK$152 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

Charges on Assets and Contingent Liabilities

At the end of the financial period, total bank and other borrowings of approximately HK$19,070 million (2013: HK$15,024 million) were secured by pledge of the Group's assets including leasehold land, investment property, property, plant and equipment, properties held or under development for sale and equity interest in subsidiaries, details of which are set out in note 30 to the financial statements.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans and end when the purchasers pledge related properties certificates as security to the bank offering the mortgate loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB111 million (equivalent to HK$140 million) and these contracts were still effective as at the close of business on 31 December 2014.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty as the principal of each of the mortgage loan is normally below 70% of sales price of the respective property at date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

Details of projects under development:

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Proportion of SRE
The Bund Center Haikou	No.18 Taihua Road, Longhua District, Haikou City, Hainan Province, The PRC	Hotel	45,458	2015	95%	79%
		Residential Phase II	212,545	2018	0%	79%
		Commercial Phase II	16,316	2018	0%	79%
Minhang Project	No. 3888, Kunyang Northern Road, Maqiao Town, Minhang District, Shanghai, The PRC	Residential	103,164	yet to be decided	0%	27.70%
Albany Oasis Garden	No. 699, Zhong Xing Road, Zhabei District, Shanghai, The PRC	Residential Phase III	159,500	2016	25%	100%
		Residential Phase IV	45,000	2018	0%	100%
		Commercials	40,000	2018	0%	100%
		Office & Hotel	100,500	2018	0%	100%
Shengyang Albany	South Heping Road, Heping District, Shenyang City, Liaoning Province, The PRC	Residential Phase IIA	87,801	2015	80%	97.50%
		Residential Phase IIB	90,100	2016	50%	97.50%
		Commercial Phase IIB	3,038	2016	50%	97.50%
		Super Market Phase IIIA	24,231	2015	50%	97.50%
		Residential Phase IIIB	120,003	2017	0%	97.50%
		Commercial Phase IIIB	7,754	2017	0%	97.50%
		Residential Phase IIIC	85,700	2018	0%	97.50%
		Commercial Phase IIIC	1,890	2018	0%	97.50%
SRE Pudong Coastal Project (previously named as "Pudong Project")	Yongfa Road, Pudong New District, Shanghai, The PRC	Residential	58,178	yet to be decided	0%	98.75%

Management Discussion and Analysis

Project	Location	Land Use	GFA (sqm)	Expected Date of Completion	Completion Rate of Construction	Holding Proportion of SRE
Huating Project (previously named as "Bairun Project")	Lane 68, Eastern Xie Tu Road, Huangpu District, Shanghai, The PRC	Residential	27,119	2016	60%	50.36%
		Commercials	4,152	2016	80%	50.36%
		Parking	5,681	2016	90%	50.36%
Rich Gate I (Qinhai Oasis Garden)	Daxing Road, Huangpu District, Shanghai, The PRC	Residential	75,757	2019	0%	100%
		Office	41,820	2019	0%	100%
		Service Apartment	12,000	2019	0%	100%
		Underground	83,000	2019	0%	100%
Shenyang Yosemite Oasis Community	the town of Lee Sang Lane, Dongling District, Shenyang City, Liaoning Province, The PRC	Town House Phase I (Shuangxing section)	97,612	2015	85%	98.95%
		Residential Phase III	203,960	2016	0%	98.95%
Jiaxing Project	No.1, Linghu Road, Nanhu District, Jiaxing City, Zhejiang Province, The PRC	Residential and Commercial – 1# Phase II	73,144	2016	0%	98.75%
Wuxi Yongqing	Within Wuxi Hongshan New Town	Residential	204,219	2016	0%	98.75%
Dalian Oasis City Garden	Dalian WaFang Dian City in Liaoning Province, West outer ring street west of south of north ring Road	Residential	75,757	2019	0%	50.36%
		Office	38,820	2019	0%	50.36%
		Commercials	15,000	2019	0%	50.36%
		Underground	83,000	2019	0%	50.36%
PuDi Prime	No. 518, LuXi Road, Chuanshan, Pudong New Area	Residential	36,883	2017	0%	98.75%
		Service Apartment	15,000	2018	0%	98.75%
		Hotel	30,000	2018	0%	98.75%
		Commercials	42,650	2016	0%	98.75%
		Cinema	5,000	2016	0%	98.75%
		Supermarket	18,000	2016	0%	98.75%
		Underground	59,082	2016	0%	98.75%

Management Discussion and Analysis

Details of completed investment properties:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shenyang Rich Gate	No.118, Harbin Road, Shenhe District, Shenyang City, Liaoning Province, The PRC	Commercial	245,252	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, The PRC	Retail & Office	32,602	95.79%
Oasis Central Ring Center	No. 1678, Jinshajiang Road, Putuo District, Shanghai, The PRC	Retail	6,499	95.79%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shangha, The PRC	Car Park	57,045	95.79%
Unit 2605, 2606, 26(3A), 2803, 2806 and 28(3A) of Universal Mansion	No. 172 Yuyuan Road, Jing'An District, Shanghai, The PRC	Office	732	98%
Shanghai Shuocheng supermarket	No. 350, Zhong Hua Xin Road, Zhabei District, Shanghai, The PRC	Retail	Approx. 24,000	100%
SRE Financial Centre	No.15 Dapu Road, Luwan District, Shanghai, The PRC	Office	Approx. 28,000	55.42%

Details of hotels:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shanghai Skyway Pullman Hotel	No.15 Dapu Road, Luwan District, Shanghai, The PRC	Hotel	64,047	55.42%

Report of the Directors

The directors have pleasure in submitting the annual report together with the audited consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2014.

Principal Activities

The Group are mainly engaged in real estate development, property leasing and hotel operations in Mainland China. The principal activities of its principal subsidiaries and associates are respectively set out in notes 21 and 22 to the financial statements.

Segmental Information

Details of the Group's turnover and profit by principal activity and geographical area for the year ended 31 December 2014 are set out in note 4 to the financial statements.

Results

Details of the Group's results for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income. No interim dividend was declared by the Board of Directors of the Company. The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2014 (2013: HK1.06 cents per share).

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 30 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and in note 29 to the financial statements.

Distributable Reserves

As computed in accordance with The Companies Act 1981 of Bermuda, the Company does not have reserves for distribution to shareholders as at 31 December 2014 (2013: HK$4.9 million). The share premium account with balance of approximately HK$5,434 million (2013: HK$5,434 million) may be distributed in the form of fully paid bonus shares.

Share Capital

Details of movements in the share capital of the Company are set out in note 28 to the financial statements.

Financial Summary

A financial summary of the Group is set out on page 3 of the Annual Report.

Pre-Emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2014.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are respectively set out in notes 17 and 18 to the financial statements.

Related Party Transactions

Details of the Related Party Transactions (which also include connected transactions) of the Group for the year ended 31 December 2014 are set out in note 43 to the financial statements.

Directors

The directors who held office during the year and as of the date when the annual report was published are:

Executive Directors

Mr. Shi Jian
Mr. Li Yao Min (resigned on 5 February 2015)
Mr. Yu Hai Sheng (resigned on 5 February 2015)
Mr. Jiang Xu Dong (resigned on 14 August 2014)
Mr. Wang Zi Xiong
Mr. Ma Dayu (appointed on 5 February 2015)
Mr. Li Genfa (appointed on 5 February 2015)
Mr. Zhang Hongfei
Mr. Shi Lizhou

Non-executive Directors

Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors

Mr. Jiang Xie Fu (resigned on 16 June 2014)
Mr. Zhuo Fu Min
Mr. Yuan Pu (resigned on 13 October 2014)
Mr. Chan, Charles Sheung Wai
Mr. Yang Chao
Mr. Guoping (appointed on 13 October 2014)

The Company had received confirmation from each of the Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the HKEx and considered all Independent Non-executive Directors to be independent.

Report of the Directors

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Shi Jian, Mr. Shi Lizhou, Mr. Jin Bing Rong, Mr. Ma Dayu, Mr. Li Genfa and Mr. Guoping will retire at the forthcoming annual general meeting, but being eligible, will offer themselves for re-election.

Biographical details for Directors are set out on pages 22 to 25 of this Annual Report.

Directors' Emoluments

The fixed annual remuneration of the Executive Directors is determined by the Remuneration Committee of the Board. Each Executive Director is also entitled to an annual management bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time, provided that the aggregate management bonus payable to all Executive Directors for a financial year shall not be more than 10% of the Company's net profit after taxation and non-controlling interests as shown in the audited consolidated financial statements of the Company for the relevant year.

Details of directors' emoluments are set out in note 10 to the financial statements.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with any member of the Company which is not determinable within one year without the payment of compensation other than statutory compensation.

Directors' Interest in Contracts of Significance

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries is a party and in which any of the Company's directors has a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to acquire Shares or Debentures

In 2014, none of the directors had been granted any options or exercised any options of the Company.

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the HKEx pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the HK Listing Rules were as follows:

Long position in Shares of the Company

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Shi Jian	13,006,991	2,324 *(Note 1)*	2,889,659,128 *(Note 2)*	2,902,668,443	51.24%
Li Yao Min	5,172,324	–	–	5,172,324	0.09%
Yu Hai Sheng	6,236,091	–	–	6,236,091	0.11%
Zhuo Fu Min	–	160,000 *(Note 3)*	–	160,000	0.003%

Notes:

1. These Shares were held by Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

2. These 2,889,659,128 Shares were held by SREI. As Mr. Shi Jian and his spouse, Md. Si Xiao Dong together beneficially own 66% of the issued share capital of SRE Investment, Mr. Shi is therefore taken to be interested in these 2,889,659,128 Shares.

3. These Shares were held by Md. He Pei Pei, the spouse of Mr. Zhuo Fu Min.

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) or the Model Code or which were required to be entered in the register required to be kept under Section 352 of the SFO.

Report of the Directors

Substantial Shareholders' Interests

As at 31 December 2014, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had interests of the Company or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions and short positions in Shares

Name of Shareholder	Capacity	Number of issued ordinary shares held *(Note 1)*	Approximate percentage of shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	2,902,668,443 (L) *(Note 2)*	51.24%
SRE Investment	Beneficial owner	2,889,659,128 (L)	51.01%

Notes:

(1) "L" represents long positions in Shares.

(2) These Shares comprised 2,324 Shares held by Md. Si Xiao Dong, 13,006,991 Shares held by her spouse – Mr. Shi Jian and 2,889,659,128 Shares which SRE Investment was interested in.

Save as disclosed above, none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which would have to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

Share Option Scheme

No share option of the Company was granted, exercised, cancelled or lapsed during 2014.

Competing Interests

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Major Customers and Suppliers

The Group's customers from whom the revenue of continuing operations derived are widely dispersed. No customer nor a single group of customers under common control of continuing operations contributed 10% or more of the Group's revenue for the years ended 31 December 2014 and 2013. During the year, less than 30% of the Group's revenue was attributable to the Group's five largest customers combined.

During the year, less than 30 per cent of the Group's purchases were attributable to the Group's five largest suppliers combined.

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The Company established an Audit Committee on 12 November 2001 with terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The Audit Committee has five members comprising the two Non-executive Directors and the three Independent Non-executive Directors. The audited annual financial report for the year ended 31 December 2014 has been reviewed by the Audit Committee.

Pension Scheme

Details of the Group's pension schemes are set out in the section of other employee benefits of Note 2.4 to the financial statements.

Auditors

The financial statements for the year ended 31 December 2014 have been audited by Messrs. Ernst & Young. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board
Shi Jian
Chairman

Hong Kong, 27 March 2015

Corporate Governance Report

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders. The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and a solid foundation for achieving a high standard of accountability and transparency.

Corporate Governance Practices

The Board had reviewed its corporate governance practices throughout the financial year, and confirmed that the Company has complied with all principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") except for Code Provision E.1.2 which stipulates that the chairman of the board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Shi Jian, the Chairman of the Board and the Chairman of the Nomination Committee, did not attend the annual general meeting for the year 2014 due to other business engagements.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. In response to specific enquiries made, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year of 2014.

Board of Directors

Throughout the year ended 31 December 2014, the Company has complied with the board's practices and procedures as set out in the Listing Rules, except for the deviation as disclosed under the section of "Independent Non-executive Directors" hereunder.

Board Composition

As at 31 December 2014, the Board consists of twelve Directors, including six Executive Directors, namely, Mr. Shi Jian (Chairman), Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Wang Zi Xiong, Mr. Zhang Hongfei and Mr. Shi Lizhou; two Non-executive Directors, namely, Mr. Cheung Wing Yui and Mr. Jin Bing Rong; and four Independent Non-executive Directors, namely, Mr. Zhuo Fu Min, Mr. Chan, Charles Sheung Wai, Mr. Yang Chao and Mr. Guoping.

Save as disclosed in the above section "Directors and Management", there is no financial, business, family or other material/relevant relationship amongst the Directors.

Role of the Board

The Board, which is accountable to shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board formulates, approves and monitors Group-wide strategies and policies, evaluates the performance of the Company, and supervises the management of the Company ("Management"). Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Chairman, Vice-Chairman and Chief Executive Officer

Mr. Shi Jian is the executive Chairman of the Board and responsible for formulating, developing and reassessing the Group's strategies and policies and for all Board matters. Mr. Wang Zi Xiong is the Vice Chairman of the Board and is responsible for assisting the Chairman of the Board in discharging his responsibilities. Mr. Wang Zi Xiong is also the Chief Executive Officer ("CEO") of the Company and responsible for the execution of the Group's business strategies and plans. The positions of the Chairman and the CEO are held by separate individuals so as to maintain an effective segregation of duties.

Independent Non-executive Directors

The Board has 12 members with 4 of them being Independent Non-executive Directors ("INEDs"). This satisfies both the requirements of having at least 3 INEDs under Rule 3.10(1) of the Listing Rules, as well as of having INEDs representing at least one-third of the Board under Rule 3.10A of the Listing Rules. The INEDs are expressly identified in all corporate communications pursuant to the Listing Rules.

Due to Mr. Jiang Xie Fu's resignation as an INED and the Chairman of the Audit Committee, the Company since 16 June 2014 temporarily failed to comply with (i) Rule 3.10A of the Listing Rules, which requires that the INEDs of the Company shall represent at least one-third of the board; and (ii) Rule 3.21 of the Listing Rules that the INEDs who are members of the Audit Committee of the Company shall form the majority of the Audit Committee of the Company and the Audit Committee of the Company shall be chaired by an INED. Following the resignation of Mr. Jiang Xu Dong as an Executive Director of the Company and the appointment of Mr. Chan, Charles Sheung Wai and Mr. Yuan Pu as the Chairman and a member of the Audit Committee on 14 August 2014, such non-compliance was rectified.

The functions of Independent Non-executive Directors include:

- expressing an independent view and judgement at Board meetings;
- taking the lead to identify potential conflicts of interests if any;
- serving on Board committees if invited; and
- scrutinizing the Company's performance and monitoring performance reporting.

The Independent Non-executive Directors have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They gave the Board and the Board committees the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Corporate Governance Function

The Board is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policies and practices on corporate governance;
(b) to review and monitor the training and continuous professional development of directors and senior management;
(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) to develop, review and monitor the code of conduct applicable to employees and directors; and
(e) to review the Company's compliance with the CG Code and its disclosure in the corporate governance report.

Corporate Governance Report

Meetings

The Board meets at least four times a year at approximately quarterly intervals. During 2014, the Board held five meetings to review the financial performance, annual and interim results, material investments and other significant matters of the Group. The Bye-laws of the Company provides for the convening of the Board or Board Committee meetings by way of telephonic or similar communications.

The attendance records of the Directors at the Board meetings, Board Committee meetings and the Annual General Meeting ("AGM") for the Financial Year are set out below:

	Attendance/ Number of Meetings (during director's tenure)					
	Board	**Audit Committee**	**Investment Committee**	**Nomination Committee**	**Remuneration Committee**	**AGM**
Executive Director						
Shi Jian	5/5			2/2		0/1
Li Yao Min *(Note 1)*	4/5					1/1
Yu Hai Sheng *(Note 1)*	5/5					1/1
Jiang Xu Dong *(Note 2)*	3/3					1/1
Wang Zi Xiong	5/5					1/1
Zhang Hongfei	5/5					1/1
Shi Lizhou	5/5					1/1
Non-executive Director						
Cheung Wing Yui	4/5	2/2			1/1	1/1
Jin Bing Rong	5/5	2/2				1/1
Independent Non-executive Director						
Jiang Xie Fu *(Note 3)*	2/2	1/1				1/1
Zhuo Fu Min	5/5	2/2	1/1	2/2	1/1	1/1
Yuan Pu *(Note 4)*	3/4	0/1		2/2		1/1
Chan, Charles Sheung Wai	5/5	2/2	1/1		1/1	1/1
Yang Chao	5/5		1/1			1/1
Guoping *(Note 5)*	1/1	0/0		0/0		0/0

Note:

1. Mr. Li Yao Min and Mr. Yu Hai Sheng resigned as Executive Directors on 5 February 2015.
2. Mr. Jiang Xu Dong resigned as an Executive Director on 14 August 2014.
3. Mr. Jiang Xie Fu resigned as an Independent Non-executive Director and the Chairman of the Audit Committee on 16 June 2014.
4. Mr. Yuan Pu was appointed as a member of the Audit Committee on 14 August 2014 and was subsequently resigned as are Independent Non-executive Director and a member of the Audit Committee and the Nomination Committee on 13 October 2014.
5. Mr. Guoping was appointed as an Independent Non-executive Director and member of the Audit Committee and the Nomination Committee on 13 October 2014.

Apart from regular Board meetings, the Chairman also held a meeting with Non-executive Directors (including INEDs) without the presence of Executive Directors during the Financial Year.

Board papers are circulated and the Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company maintains a procedure for Directors to seek independent professional advice in appropriate circumstances.

Board Committees

The Board has established 4 committees, namely Audit Committee, Investment Committee, Nomination Committee and Remuneration Committee. These committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management. Their terms of reference have been updated during the year in line with the CG Code and are available on the websites of the Company and the HKEx. The Company has provided sufficient resources to the Board Committees to perform their duties.

Audit Committee

The Company established an audit committee ("AC") on 12 November 2001. The AC comprises five members, the Chairman and members of the AC during the Financial Year were as follows:

Independent Non-executive Directors
Mr. Chan, Charles Sheung Wai – Chairman (appointed on 14 August 2014)
Mr. Jiang Xie Fu – Member (resigned on 16 June 2014)
Mr. Zhuo Fu Min – Member
Mr. Guoping – Member (appointed on 13 October 2014)
Mr. Yuan Pu – Member (appointed on 14 August 2014 and subsequently resigned on 13 October 2014)

Non-executive Directors
Mr. Jin Bing Rong – Member
Mr. Cheung Wing Yui – Member

The major duties of the AC include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the quarterly, interim and annual reports before submission to the Board;
- to review the Group's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- to review and consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.
- to consider any significant or unusual items that are, or may need to be, reflected in reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Corporate Governance Report

- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor the effectiveness of the internal audit function;

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

The AC has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to reasonable resources and assistance from the management to discharge its duties properly.

In 2014, the AC held two meetings to among other things review the interim and annual results of the Group. The AC has reviewed the Group's significant internal controls and financial matters and discussed with management and external auditor, Messrs. Ernst & Young ("EY") of the Company. AC has also reviewed the audit plans and findings of EY, EY's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls and risk management. The attendance record of each committee member is shown on page 38 under the section of "Meetings".

The AC had met EY two times during the Financial Year. There was no disagreement between the Board and the AC regarding the selection and appointment of external auditors. The AC is satisfied that EY is able to meet the audit obligations of the Company and recommends to the Board the re-appointment of EY as the Company's external auditor subject to the approval of the shareholders at the forthcoming AGM of the Company.

Investment Committee

The Company has established an Investment Committee ("IC") on 22 November 2013. The IC consists of not less than three members and a majority of the members shall be INEDs of the Company. The members of the IC shall comprise such directors of the Company appointed by the Board. The chairman and members of the IC during the Financial Year were as follows:

Independent Non-executive Directors
Mr. Yang Chao – Chairman
Mr. Zhuo Fu Min – Member
Mr. Chan, Charles Sheung Wai – Member

The IC performs the following main functions:

- review the management's recommended investment opportunities, objectives, strategies, policies and guidelines that direct the investment of the portfolio;

- review the management's recommended portfolio financial goals and requirements, including asset allocation, risk tolerance, investment time horizon and capital adequacy;

- review and evaluate the performance of the investment portfolio regularly to assure adherence to policy guidelines and monitor progress toward achieving investment objectives; and

- review the shares purchase, redemption or other share acquisition activities to be conducted by the Company.

In 2014, the IC held one meeting to review the discrepancy between the actual and forecasted cash flow of each project in 2013, and to review the cash flow forecast of 2014.

Nomination Committee

The Company has established a Nomination Committee ("NC") on 27 March 2012. The NC consists of not less than three members and a majority of the Members shall be INEDs of the Company. The Chairman of the NC shall be appointed by the Board and shall be the Chairman of the Board or an INED. The members of the NC shall comprise such directors of the Company appointed by the Board. The NC comprises three members, the Chairman and members of the NC during the Financial Year were as follows:

Chairman of the Board
Mr. Shi Jian – Chairman

Independent Non-executive Directors
Mr. Zhuo Fu Min – Member
Mr. Guoping – Member (appointed on 13 October 2014)
Mr. Yuan Pu – Member (resigned on 13 October 2014)

The major duties of the NC include:

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

- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on selection of individual nominated for directorships;

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

- to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive;

- to determine the policy for nomination of directors; and

- to review the Board Diversity Policy on a regular basis and recommend revisions, if any, to the Board for consideration and approval.

In 2014, the NC held two meetings. The NC had reviewed the structure, size and composition of the Board of Directors of the Company and considered the retirement and re-appointment of the Directors in the Company's forthcoming AGM.

Corporate Governance Report

The Company has also assessed the independence of all the Independent Non-executive Directors of the Company and considers that all of them are independent under Rule 3.13 of the Listing Rules, having taken into account (i) their annual confirmation on independence as required under the Listing Rules, (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgment.

The Board, in the Board meeting held on 29 August 2013, has reviewed and adopted the Board diversity policy ("Board Diversity Policy") to assess the Board composition. In assessing the Board composition, the NC would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The NC would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In identifying and selecting suitable candidates for directorships, the NC would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The attendance record of each committee member is shown on page 38 under the Section of "Meetings".

Appointment, Re-election and Removal of Directors

The NC assessed the skills, knowledge and experience of Mr. Guoping, INED appointed during the Financial Year and unanimously recommended to the Board for his appointment as INED. Mr. Guo did not participate in deliberation on his own appointment.

Pursuant to the letters of appointment, all Non-executive Directors and INEDs are appointed for a term of around two years subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Bye-laws.

The procedures and processes of appointment, re-election and removal of Directors are laid down in the Bye-laws of the Company. Recommendations for appointments and re-appointments of Directors and appointments of the members of various Board Committees are made by the NC to the Board for consideration and appointment. Any Director appointed by the Board shall hold office only until, and shall retire on, the next following annual general meeting of the Company. The Bye-laws of the Company provides that at each AGM of the Company, one-third of the Directors (including Non-executive Directors) for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. If the Directors obliged to retire plus the Directors wishing to retire and not offering themselves for re-election account for less than one-third, those who have been longest in office since their last re-election or appointment shall retire to make up for the shortfall. Each Director should retire at least once every three years. A retiring Director is eligible for re-election by the shareholders of the Company at the AGM.

Mr. Shi Jian, Mr. Shi Lizhou and Mr. Jin Bing Rong will be retiring by rotation pursuant to the bye-law 87 of Bye-laws and Mr. Ma Dayu, Mr. Li Genfa and Mr. Guoping will be retiring pursuant to bye-law 86(2) of the Bye-laws at the forthcoming AGM. The retiring Directors are eligible for re-election at the forthcoming AGM.

Remuneration Committee

The Company has set up a remuneration committee ("RC") with a majority of the members thereof being INEDs. The RC schedules to meet at least once a year, and the quorum necessary for the transaction of business is two. The RC comprises three members, the Chairman and members of the RC during the Financial Year were as follows:

Independent Non-executive Directors
Mr. Chan, Charles Sheung Wai – Chairman
Mr. Zhuo Fu Min – Member

Non-executive Director
Mr. Cheung Wing Yui – Member

The principal duties of the RC include, among other things:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;

- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

- making recommendations to the Board on the remuneration packages of individual Directors and senior management;

- making recommendations to the board on the remuneration of non-executive directors;

- considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

- reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- ensuring that no director or any of his associates is involved in deciding his own remuneration.

The RC should consult the Chairman and/or chief executive about their remuneration proposals for other Executive Directors and have assess to independent professional advice if necessary.

In 2014, the RC held one meeting to review and recommend the remuneration of the Executive Directors and fees payable to INEDS, and to review the Company's remuneration policies, its terms of service contracts and the performance of executive directors, and to consider the terms of appointment letters to be entered with the independent non-executive directors. No director should involve in deciding his/her own remuneration. The attendance record of each committee member is shown on page 38 under the section "Meetings".

Corporate Governance Report

Directors' Training and Commitment

Upon appointment, each Director receives appropriate induction training and coaching to develop individual skills as required. The Directors are also provided with updates on the relevant new laws, regulations and changing commercial risks in the Group's operating environment through regular presentations and meetings. They also have the opportunity to visit the Group's operational facilities and meet with management to gain a better understanding of business operations and governance practices.

The Directors have confirmed that they have complied with the Code Provision A.6.5 of the HK Code on Directors' training. During the Financial Year, all Directors have participated in continuous professional development by attending seminars, in-house briefing or reading materials on the following topics to develop and refresh their knowledge and skills and provided their records of training to the Company.

	Topics		
Name of Director	**Legal, Regulatory and Corporate Governance**	**Group's Business and Industry Updates**	**Director' Roles, Functions and Duties**
Executive Director			
Shi Jian	✓	✓	
Li Yao Min (resigned on 5 February 2015	✓	✓	
Yu Hai Sheng (resigned on 5 February 2015)	✓	✓	
Jiang Xu Dong (resigned on 14 August 2014)	✓	✓	
Wang Zi Xiong	✓	✓	
Zhang Hongfei	✓	✓	
Shi Lizhou	✓	✓	
Non-executive Directors			
Cheung Wing Yui	✓	✓	✓
Jin Bing Rong	✓	✓	
Independent Non-executive Director			
Jiang Xie Fu (resigned on 16 June 2014)		✓	
Zhuo Fu Min	✓	✓	
Yuan Pu (resigned on 13 October 2014)	✓	✓	
Chan, Charles Sheung Wai	✓	✓	
Yang Chao	✓	✓	✓
Guoping (appointed on 13 October 2014)	✓		✓

Confirmation has been received from the Directors that they have provided sufficient time and attention to the affairs of the Group. Besides, Directors have been disclosing to the Company their interests as director and other office in other public companies and organisations in a timely manner and update the Company on any subsequent changes.

Directors' and Officers' Liabilities

The Company has arranged appropriate liability insurance to indemnify its Directors and officers for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the financial year, no legal action was made against any of our Directors and officers in relation to duties performed for the Company.

Company Secretary

The Company Secretary is responsible for ensuring that board procedures comply with all applicable laws, rules and regulations and advising the Board on corporate governance matters. Moreover, the Company Secretary is responsible for keeping all Directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company. During the year under review, the Company Secretary has taken not less than 15 hours of relevant professional training.

Directors' responsibilities for the Financial Statements

The responsibility of the Directors is to prepare the financial statements, while the responsibility of the auditors is to express an opinion on the Group consolidated financial statements based on their audit, for particulars please refer to the "Independent Auditors' Report" section of this report. The Board should ensure such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for the relevant financial period. In regard of this, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis. Besides, the Directors are also responsible for ensuring that the Group operates an efficient financial reporting system, keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Group has employed sufficient qualified staff to assist the preparation of financial statements.

Internal Control and Risk Management

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority designed to help the business to achieve its objectives, to safeguard assets against unauthorised use or disposition, to ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and to ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Auditors' Remuneration

During the year, the auditors of the Company, EY charged RMB4,180 thousand (equivalent to HK$5,275 thousand) for audit services.

Investor Relations

The Company uses a number of formal communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or special general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering a communication platform between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders regarding all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices, and other announcements.

During the year, there is no change in the Company's constitutional documents.

Shareholders' Right to convene and put forward Proposals at Special General Meetings

Pursuant to the Company's Bye-laws, members 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 all times have the right, by written requisition to the Board and the Secretary of the Company at the business address or registered office address which are set out in Corporate Information of this Annual Report, to request a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same matter.

Corporate Information

Board of Directors

Shi Jian *(Chairman)*
Wang Zi Xiong *(Vice-Chairman & Chief Executive Officer)*
Ma Dayu
Li Genfa
Zhang Hongfei
Shi Lizhou
Cheung Wing Yui*
Jin Bing Rong *
Zhuo Fu Min**
Chan, Charles Sheung Wai**
Yang Chao**
Guoping**

* Non-executive Directors
** Independent Non-executive Directors

Authorized Representatives

Shi Jian
Wang Zi Xiong

Company Secretary

Chan Yim Shan

Legal Adviser

Woo, Kwan, Lee & Lo

Auditor

Ernst & Young

Principal Bankers

Hong Kong:	The Agricultural Bank of China CITIC Bank International Limited
PRC:	The Agricultural Bank of China The Industrial and Commercial Bank of China The Bank of China Shanghai Pudong Development Bank China Minsheng Bank

Corporate Information

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office

Suite 4006, 40/F, Central Plaza
18 Harbour Road, Wanchai, Hong Kong.

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

1207

Internet Web Site

www.sre.com.cn

E-mail

general@sregroup.com.hk

Independent Auditors' Report

To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 142, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Independent Auditors' Report

Opinion

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

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong
27 March 2015

Consolidated Statement of Profit or Loss and other Comprehensive Income

Year ended 31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Notes	**2014**	2013
Revenue	5	**1,439,956**	3,344,278
Cost of sales	7	**(1,133,304)**	(2,387,850)
Gross profit		**306,652**	956,428
Other gains – net	6	**964,797**	148,395
Selling and marketing expenses	7	**(77,148)**	(78,397)
Administrative expenses	7	**(270,308)**	(266,871)
Operating profit		**923,993**	759,555
Finance income	8	**99,204**	87,455
Finance costs	9	**(456,753)**	(352,117)
Finance costs – net		**(357,549)**	(264,662)
Share of profits of associates		**1,431**	4,846
Profit before tax		**567,875**	499,739
Income tax expense	12	**(423,600)**	(294,609)
Profit for the year		**144,275**	205,130
Other comprehensive income			
Item not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements into presentation currency		**(30,908)**	295,109
Other comprehensive income for the year, net of tax		**(30,908)**	295,109
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**113,367**	500,239

Consolidated Statement of Profit or Loss and other Comprehensive Income

Year ended 31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Notes	**2014**	2013
(Loss)/profit attributable to:			
Owners of the parent		**(105,954)**	200,171
Non-controlling interests		**250,229**	4,959
		144,275	205,130
Total comprehensive income attributable to:			
Owners of the parent	13	**(137,611)**	480,798
Non-controlling interests		**250,978**	19,441
		113,367	500,239
(Loss)/earnings per share attributable to ordinary equity holders of the parent	15		
–Basic		**HK(1.87) cents**	HK3.53 cents
– Diluted		**HK(1.87) cents**	HK3.53 cents

Details of the dividends paid and proposed are disclosed in Note 14 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

Statements of Financial Position

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

		Group		Company	
	Notes	2014	2013	2014	2013
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,672,425	1,343,584	445	829
Investment properties	18	6,709,310	5,214,575	–	–
Prepaid land lease payments	19	133,023	137,806	–	–
Goodwill	20	569,329	651,308	–	–
Investments in subsidiaries	21(a)	–	–	5,110,023	5,127,579
Advances to subsidiaries	21(b)	–	–	1,305,438	1,372,791
Investments in associates	22	57,512	75,939	–	–
Deferred tax assets	32	394,332	510,324	–	–
Non-current prepayments	24	6,338	6,360	–	–
Available-for-sale investments	31	12,676	–	–	–
Other non-current assets	34	34,225	–	–	–
		9,589,170	7,939,896	6,415,906	6,501,199
Current assets					
Prepaid land lease payments	19	12,193,194	11,300,584	–	–
Properties held or under development for sale	23	9,367,652	7,991,138	–	–
Inventories		18,014	12,076	–	–
Dividends receivable from subsidiaries		–	–	2,473,852	2,482,348
Prepayments and other current assets	24	3,372,619	1,145,340	7,487	2,881
Other receivables	25	389,118	503,816	–	–
Trade receivables	26	47,356	35,503	–	–
Prepaid income tax		240,763	170,740	–	–
Cash and bank balances	27	2,108,997	2,941,096	58,486	56,698
		27,737,713	24,100,293	2,539,825	2,541,927
Total assets		37,326,883	32,040,189	8,955,731	9,043,126

Statements of Financial Position

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Notes	Group 2014	Group 2013	Company 2014	Company 2013
EQUITY AND LIABILITIES					
Equity					
Issued capital and premium	28	**6,000,738**	6,000,738	**6,000,738**	6,000,738
Other reserves	29	**1,688,257**	1,714,864	**1,410,965**	1,436,744
Retained profits/(accumulated losses)	29	**1,347,736**	1,454,952	**(64,874)**	4,900
Proposed final dividend	14	**–**	60,046	**–**	60,046
Equity attributable to owners of the parent		**9,036,731**	9,230,600	**7,346,829**	7,502,428
Non-controlling interests		**566,804**	322,755	**–**	–
Total equity		**9,603,535**	9,553,355	**7,346,829**	7,502,428
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	30	**12,365,003**	10,233,940	**373,395**	326,048
Deferred tax liabilities	32	**2,154,852**	1,943,823	**–**	–
		14,519,855	12,177,763	**373,395**	326,048
Current liabilities					
Interest-bearing bank and other borrowings	30	**7,229,169**	5,322,462	**1,234,048**	1,193,986
Convertible bonds – host debts	33	**–**	8,332	**–**	8,332
Advances received from the pre-sale of properties under development	35	**1,542,255**	1,177,218	**–**	–
Trade payables	36	**2,135,637**	1,804,043	**–**	–
Other payables and accruals	37	**721,529**	421,021	**1,459**	12,332
Current income tax liabilities		**1,574,903**	1,575,995	**–**	–
		13,203,493	10,309,071	**1,235,507**	1,214,650
Total liabilities		**27,723,348**	22,486,834	**1,608,902**	1,540,698
Total equity and liabilities		**37,326,883**	32,040,189	**8,955,731**	9,043,126
Net current assets		**14,534,220**	13,791,222	**1,304,318**	1,327,277
Total assets less current liabilities		**24,123,390**	21,731,118	**7,720,224**	7,828,476

The accompanying notes are an integral part of these consolidated financial statements.

Shi Jian	**Wang Zi Xiong**
Chairman	Vice-Chairman and Chief Executive Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 28)	Asset revaluation reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
At 1 January 2014	6,000,738	1,211*	367,249*	1,740,855*	(397,261)*	2,810*	1,454,952	60,046	9,230,600	322,755	9,553,355
Total comprehensive income for the year	–	–	–	(31,657)	–	–	(105,954)	–	(137,611)	250,978	113,367
Appropriation from retained profits	–	–	1,262	–	–	–	(1,262)	–	–	–	–
Acquisition of subsidiaries (Note 41)	–	–	–	–	–	–	–	–	–	21,878	21,878
Disposal of subsidiaries (Note 42)	–	–	–	–	–	–	–	–	–	(20,430)	(20,430)
Change due to increase in equity interests in subsidiaries	–	–	–	–	192	–	–	–	192	(445)	(253)
Change due to decrease in equity interests in subsidiaries	–	–	–	–	3,596	–	–	–	3,596	(3,598)	(2)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(4,334)	(4,334)
Transfer upon the redemption of CB4	–	–	–	–	2,810	(2,810)	–	–	–	–	–
Final 2013 dividend distribution	–	–	–	–	–	–	–	(60,046)	(60,046)	–	(60,046)
At 31 December 2014	6,000,738	1,211*	368,511*	1,709,198*	(390,663)*	–*	1,347,736	–	9,036,731	566,804	9,603,535

Consolidated Statement of Changes in Equity

Year ended 31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 28)	Asset revaluation reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
At 1 January 2013	6,000,738	1,211*	320,136*	1,460,228 *	(89,069)*	2,810*	1,361,940	–	9,057,994	704,340	9,762,334
Total comprehensive income for the year	–	–	–	280,627	–	–	200,171	–	480,798	19,441	500,239
Appropriation from retained profits	–	–	47,113	–	–	–	(47,113)	–	–	–	–
Acquisition of a non-controlling interest	–	–	–	–	(308,192)	–	–	–	(308,192)	(417,321)	(725,513)
Capital contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	18,844	18,844
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(2,549)	(2,549)
Proposed final 2013 dividend (Note 14)	–	–	–	–	–	–	(60,046)	60,046	–	–	–
At 31 December 2013	6,000,738	1,211*	367,249*	1,740,855*	(397,261)*	2,810*	1,454,952	60,046	9,230,600	322,755	9,553,355

* These reserve accounts comprise the consolidated reserves of HK$1,688,257 thousand (2013: HK$1,714,864 thousand) in the consolidated statement of financial position.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	38	**(2,986,404)**	(1,456,647)
Interest paid		**(1,584,082)**	(1,134,226)
Income tax paid		**(159,129)**	(303,259)
Net cash flows used in operating activities		**(4,729,615)**	(2,894,132)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(308,544)**	(281,593)
Proceeds from disposal of items of property, plant and equipment		**53,931**	844
Payments for investment properties		**(5,358)**	(5,964)
Acquisition of subsidiaries		**(14,724)**	–
Disposal of subsidiaries		**148,061**	369,285
Purchase of available-for-sale investments		**(12,676)**	–
Reduction of capital of an associate		**16,406**	–
Settlement of receivables in connection with acquisition of Konmen Investment Limited		**1,025**	532,622
Earnest money paid to a third party for acquisition of a company		**–**	(6,360)
Decrease/(increase) in time deposits with original maturity of over three months		**2,543**	(78)
Dividends received from an associate		**3,111**	7,800
Interest received		**73,212**	44,390
Net cash flows (used in)/from investing activities		**(43,013)**	660,946
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for the redemption of Guaranteed Senior Notes		**–**	(561,574)
Payments for acquisition of an equity interest of a subsidiary from a non-controlling shareholder		**–**	(458,000)
Decrease/(increase) in pledged bank deposits		**36,582**	(776,286)
Increase in restricted deposits in relation to bank borrowings		**(24,203)**	(4,507)
Proceeds from short-term borrowings		**1,695,457**	978,945
Repayments of short-term borrowings		**(742,933)**	(500,063)
Proceeds from long-term borrowings		**5,516,578**	11,005,519
Repayments of long-term borrowings		**(2,437,413)**	(7,380,916)
Payments for the redemption of CB4		**(8,813)**	–
Cash received from the capital injection from non-controlling shareholders of subsidiaries		**–**	18,844
Dividends paid to the Company's shareholders		**(60,046)**	–
Dividends paid to non-controlling shareholders of a subsidiary		**(4,334)**	(243)
Net cash flows from financing activities		**3,970,875**	2,321,719
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(801,753)**	88,533
Cash and cash equivalents at beginning of year		**1,382,220**	1,253,004
Effect of foreign exchange rate changes, net		**(8,288)**	40,683
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**572,179**	1,382,220

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Financial Statements

1. CORPORATE INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on the Hong Kong Exchange and Clearing Limited (the "HKEx"), the Company became the holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the HKEx on 10 December 1999. The principal place of business of the Company is located at Suite 4006, 40/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

Currently, the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in real estate development, property leasing and hotel operations in Mainland China.

In the opinion of the Directors, as at 31 December 2014, the Company's parent company is SRE Investment Holding Limited (the "SREI"), which holds 51.01% of the Company's shares (51.43% as at 31 December 2013). The remaining 48.99% of the shares are held by various different shareholders.

2.1 BASIS OF PREPARATION

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

In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity, its ability to maintain adequate cash inflow from operations and financing to meet its financial obligations as and when they fall due, and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Basis of consolidation

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

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

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.1 BASIS OF PREPARATION (continued)

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

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

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and land development for sale) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

1 Effective from 1 July 2014

The adoption of the revised standards and new interpretation has had no significant effect on these financial statements.

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

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

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements. Currently, the Group expects to adopt them when they become effective.

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

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

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

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

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

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONGKONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

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

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

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

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

In January 2015, the HKICPA issued amendments to HKAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in their financial statements. The amendments to HKAS 1 include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, and Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities and HKAS 28 Investments in Associates and Joint Ventures introduce minor clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONGKONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

The amendments can be applied immediately, and become mandatory for annual periods beginning on or after 1 January 2016. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in Note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

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

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

Business combinations and goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

Fair value measurement

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

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

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

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fittings, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

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

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss and other comprehensive income in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

Research and development costs

All research costs are charged to the statement of profit or loss and other comprehensive income as incurred.

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

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

Operating leases

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in other expenses.

Available-for-sale financial investments

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

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

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

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

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

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss and other comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, derivative financial instruments, interest-bearing bank loans and other borrowings, guaranteed senior notes, and convertible bonds.

Subsequent measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Convertible bonds

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

Where the conversion option of a convertible bond does not meet the definition of equity, the convertible bond contains only liability and derivative components. On initial recognition, the entire convertible bond is either designated as a financial liability at fair value through profit or loss or separated into derivative financial liabilities (including all embedded derivatives that should be separated from the host debt) and host debt which are carried at fair value and amortised cost respectively. If the embedded derivatives are separated from the host debt, transaction costs are apportioned between the host debt and derivative components of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt is recognised initially as part of the host debt liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

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

Current versus non-current classification

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

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

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

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

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables used in hotel, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets with similar nature to cash, which are not restricted as to use.

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

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

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

Revenue recognition

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

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Property leasing under operating leases

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when it is reasonably certain that the lessee will exercise the option at the inception of the lease.

Construction of infrastructure for an intelligent network

Revenue from the construction of infrastructure for an intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred and it is probable that such costs incurred will be recovered.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

Hotel operations

Revenue from hotel operations represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Other employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 14% to 22% (2013: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in the statement of profit or loss and other comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate has been applied to the expenditure on the individual assets.

Government grants

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

Where the grant relates to an asset, the fair value is deducted from the relevant asset before arriving at the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

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

For a distribution of non-cash assets to shareholders, the Group measures the liability to distribute non-cash assets as a dividend to its shareholders at the net carrying amount of the assets to be distributed when the non-cash asset is ultimately controlled by the same parties both before and after the distribution.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its subsidiaries' functional currency is Renminbi ("RMB"), as the major revenues are derived from operations in Mainland China. Since the Company is listed on the HKEx, the Hong Kong dollar ("HK$") is chosen as the presentation currency to present these financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period;

(ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless such average rates are not the reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rates ruling at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liabilities recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2014 was HK$569 million (2013: HK$651 million).

For details of goodwill, please see Note 20.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2014 and 31 December 2013 using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest, the direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and the direct comparison approach with reference to the sales transactions of the comparable properties by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Investment properties under construction are also carried at fair value as determined by independent professionally qualified valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using the residual method.

For details of change in fair values of investment properties and further details including the key assumptions used for fair value measurement and a sensitivity analysis in 2014, please see Note 18.

Deferred tax assets, liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of these provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the domicile of the respective group entity.

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets, liabilities and current income tax charge (continued)

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

For details of deferred tax assets and liabilities and income tax, please see Note 32 and Note 12.

Impairment of receivables

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimation, such difference will have impact on the carrying value of the receivables and impairment of receivables/reversal of impairment in the period in which such estimate has been changed.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. These estimates could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 2.4. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs of disposal and the value in use, which involve the use of estimates.

For details of property, plant and equipment, please see Note 17.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

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

- The property development segment develops and sells residential and commercial properties;
- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;
- The hotel operations segment provides hotel accommodation, hotel catering and conference hall services; and
- The corporate and other operations segment comprises, principally, the provision of property management services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. The performance of each segment is evaluated based on its operating profit or loss before tax and the methodology used for its calculation is same as that for the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

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

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4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows:

	2014				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	960,402	106,078	183,755	189,721	1,439,956
Intersegment sales	–	–	–	60,973	60,973
	960,402	106,078	183,755	250,694	1,500,929
Reconciliation:					
Elimination of intersegment sales					(60,973)
Revenue					1,439,956
Segment profit/(loss)	(92,034)	1,047,315	9,160	(40,448)	923,993
Finance income					99,204
Finance costs					(456,753)
Finance costs – net					(357,549)
Share of profits of associates					1,431
Profit before tax					567,875
Segment assets and liabilities					
Segment assets	27,944,150	6,721,673	1,817,413	786,135	37,269,371
Investments in associates					57,512
Total assets					37,326,883
Segment liabilities	20,843,829	3,123,360	980,598	2,775,561	27,723,348
Total liabilities	20,843,829	3,123,360	980,598	2,775,561	27,723,348
Other segment information:					
Depreciation and amortisation	7,417	271	45,489	2,034	55,211
Capital expenditure*	4,093	5,402	387,199	6,111	402,805
Fair value gain on investment properties, net	–	993,326	–	–	993,326
Impairment of goodwill	79,398	–	–	–	79,398

* Capital expenditure consists of additions of property, plant and equipment (HK$397,447 thousand) and investment properties (HK$5,358 thousand).

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4. OPERATING SEGMENT INFORMATION (continued)

An analysis by operating segment is as follows (continued):

	2013				
	Property development	Property leasing	Hote operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	2,897,110	88,094	184,073	175,001	3,344,278
Intersegment sales	–	–	–	457,470	457,470
	2,897,110	88,094	184,073	632,471	3,801,748
Reconciliation:					
Elimination of intersegment sales					(457,470)
Revenue					3,344,278
Segment profit/(loss)	586,838	202,425	20,963	(50,671)	759,555
Finance income					87,455
Finance costs					(352,117)
Finance costs – net					(264,662)
Share of profits of associates					4,846
Profit before tax					499,739
Segment assets and liabilities					
Segment assets	24,447,240	5,221,938	1,475,883	819,189	31,964,250
Investments in associates					75,939
Total assets					32,040,189
Segment liabilities	17,180,296	2,243,786	670,930	2,391,822	22,486,834
Total liabilities	17,180,296	2,243,786	670,930	2,391,822	22,486,834
Other segment information:					
Depreciation and amortisation	11,332	299	39,818	1,734	53,183
Capital expenditure*	1,417	6,068	543,978	2,171	553,634
Fair value gain on investment properties, net	–	166,291	–	–	166,291
Impairment of goodwill	17,206	–	–	–	17,206
Reversal for impairment of receivables	817	–	–	–	817

* Capital expenditure consists of additions of property, plant and equipment (HK$547,670 thousand) and investment properties (HK$5,964 thousand).

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) As of 31 December 2014, 100% (2013: more than 95%) of the sales to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2014, more than 99% (2013: more than 99%) of the Group's non-current assets (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue derived are widely dispersed. No customer or a single group of customers which are known to be under common control contributed 10% or more of the Group's revenue for the years ended 31 December 2014 and 2013.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; room charges from hotel operations and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2014	2013
Sale of development properties	**1,021,621**	3,057,046
Hotel operations	**194,757**	195,092
Revenue from property leasing (Note 18)	**115,685**	96,596
Property management revenue	**172,205**	154,210
Revenue from construction of infrastructure for an intelligent network	**21,914**	35,262
Other revenue	**15,486**	14,801
	1,541,668	3,553,007
Less: Business tax and surcharges	**(101,712)**	(208,729)
Total revenue	**1,439,956**	3,344,278

Business tax and surcharges

Business tax is calculated at 5% of the revenue from the sale of properties, hotel operations, the provision of property management services and property leasing and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Government surcharges, comprising City Maintenance and Construction Tax, Education Surtax and River Way Management Fee, are calculated at certain percentages of business tax.

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

6. OTHER GAINS – NET

An analysis of other gains – net is as follows:

	2014	2013
Fair value gain on investment properties, net (Note 18)	**993,326**	166,291
Gain/(loss) on disposal of items of property, plant and equipment, net	**43,079**	(2,407)
Impairment of goodwill (Note 20)	**(79,398)**	(17,206)
Reversal of impairment of receivables	**–**	817
Gain on disposal of subsidiaries (Note 42)	**1,662**	–
Others	**6,128**	900
	964,797	148,395

7. EXPENSE BY NATURE

An analysis of expense by nature is as follows:

	2014	2013
Cost of inventories sold (excluding depreciation)	**1,089,697**	2,350,149
Depreciation of items of property, plant and equipment (Note 17)	**50,468**	48,732
Employee benefit expense (including directors' and chief executive's emoluments):		
– Wages and salaries	**103,018**	89,036
– Other social welfare	**23,816**	25,835
	126,834	114,871
Operating lease payments in respect of buildings	**4,956**	7,742
Auditors' remuneration	**5,275**	5,439
Commission for sale of properties	**16,063**	23,419
Advertising costs	**25,547**	40,290
Miscellaneous tax	**47,632**	43,348
Transportation fee	**11,746**	11,728
Office expenses	**5,961**	5,942
Exhibition fees	**3,609**	3,718
Water and electricity costs	**5,978**	6,485
Business entertainment expenses	**7,775**	8,915
Others	**79,219**	62,340
	1,480,760	2,733,118

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8. FINANCE INCOME

An analysis of finance income is as follows:

	2014	2013
Interest income	104,868	58,190
Net foreign exchange (loss)/gain	(5,664)	29,265
	99,204	87,455

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2014	2013
Interest expense:		
Interest on bank borrowings and other borrowings		
– wholly repayable within five years	1,401,354	971,141
Interest on bank borrowings and other borrowings		
– wholly repayable beyond five years	181,211	108,576
Interest on the guaranteed senior notes		
– wholly repayable within five years	–	16,274
Interest on CB4 – wholly repayable within five years (Note 33)	872	1,429
	1,583,437	1,097,420
Less: Interest capitalised	(1,126,684)	(745,303)
Finance costs	456,753	352,117

During the year ended 31 December 2014, the weighted average interest capitalisation rate was 9.26% (2013: 9.41 %).

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10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2014	2013
Fees	**2,057**	2,128
Other emolument:		
Salaries	**14,405**	11,703
	16,462	13,831

Executive directors, non-executive directors and independent non-executive directors:

		2014	
Name of director and the chief executive	**Salaries**	**Fees**	**Total**
Executive directors			
– Mr. Yu Hai Sheng	**3,000**	**–**	**3,000**
– Mr. Jiang Xu Dong (resigned in 2014)	**2,500**	**–**	**2,500**
– Mr. Wang Zi Xiong (Chief executive)	**2,525**	**–**	**2,525**
– Mr. Shi Jian	**2,000**	**–**	**2,000**
– Mr. Li Yao Min	**2,000**	**–**	**2,000**
– Mr. Zhang Hongfei	**1,326**	**–**	**1,326**
– Mr. Shi Lizhou	**1,054**	**–**	**1,054**
Non-executive directors			
– Mr. Cheung Wing Yui	**–**	**360**	**360**
– Mr. Jin Bing Rong	**–**	**330**	**330**
Independent non-executive directors			
– Mr. Chan, Charles Sheung Wai	**–**	**330**	**330**
– Mr. Yuan Pu (resigned in 2014)	**–**	**275**	**275**
– Mr. Zhuo Fu Min	**–**	**360**	**360**
– Mr. Yang Chao	**–**	**330**	**330**
– Mr. Guoping (appointed in 2014)	**–**	**72**	**72**
Total	**14,405**	**2,057**	**16,462**

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

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

		2013	
Name of director and the chief executive	Salaries	Fees	Total
Executive directors			
– Mr. Yu Hai Sheng	2,558	–	2,558
– Mr. Jiang Xu Dong (Chief executive)	2,367	–	2,367
– Mr. Wang Zi Xiong (appointed in 2013)	1,902	–	1,902
– Mr. Shi Jian	1,562	–	1,562
– Mr. Zhang Hongfei	1,331	–	1,331
– Mr. Shi Lizhou	1,058	–	1,058
– Mr. Li Yao Min	925	–	925
Non-executive directors			
– Mr. Cheung Wing Yui	–	360	360
– Mr. Jin Bing Rong	–	330	330
Independent non-executive directors			
– Mr. Chan, Charles Sheung Wai	–	330	330
– Mr. Yuan Pu	–	330	330
– Mr. Jiang Xie Fu	–	382	382
– Mr. Zhuo Fu Min	–	360	360
– Mr. Yang Chao (appointed in 2013)	–	36	36
Total	11,703	2,128	13,831

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2014 and 2013.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2014 and 2013.

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11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year were all directors, details of whose remuneration are set out in Note 10 above. The five highest paid employees of the Group in 2013 included three directors and two non-directors, detail are listed in Note 10 and below, respectively:

	2014	2013
Salaries, housing allowances, other allowances and benefits in kind	–	3,580

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

	2014	2013
HK$1,500,001-HK$2,000,000	–	2

12. INCOME TAX

An analysis of income tax is as follows:

	2014	2013
Current taxation		
– Mainland China income tax (a)	**15,963**	105,533
– Mainland China LAT (c)	**77,176**	165,550
	93,139	271,083
Deferred taxation		
– Mainland China income tax	**388,293**	86,876
– Mainland China LAT	**(49,739)**	(74,136)
– Mainland China withholding tax (d)	**(8,093)**	10,786
	330,461	23,526
Total tax charge for the year	**423,600**	294,609

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

12. INCOME TAX (continued)

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25%, in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition based on certain estimations. The outstanding balance of prepaid income tax was approximately HK$81 million as at 31 December 2014 (2013: HK$35 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property and land ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 1.5% to 5% (2013: 1.5% to 4.5%) on proceeds of the sale and pre-sale of properties. Prepaid LAT has been recorded in "prepaid income tax" with an amount of approximately HK$160 million as at 31 December 2014 (2013: approximately HK$136 million).

(d) Mainland China withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

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12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	2014	2013
Profit before tax	**567,875**	499,739
Tax at the applicable tax rate of 25%	**141,969**	124,935
Different tax rates for certain subsidiaries	**–**	1,129
Tax effect of results attributable to associates	**(358)**	(1,211)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	**(6,859)**	(22,853)
Income not subject to tax	**(1,007)**	(3,602)
Tax losses not recognised	**106,997**	67,855
Expenses not deductible for tax	**15,784**	12,510
Previously recognised deferred tax assets arising from tax losses written off *	**147,730**	41,808
Adjustment to current income tax in respect of prior years	**–**	(28,162)
Effect of withholding tax at 10% on the retained profits expected to be distributed of the Group's subsidiaries in Mainland China	**(8,093)**	10,786
Mainland China income tax	**396,163**	203,195
Mainland China LAT (including deferred LAT)	**27,437**	91,414
Total tax expense for the year at the Group's effective tax rate	**423,600**	294,609

* Based on the profit forecast prepared by management as of 31 December 2013, Shanghai Skyway Hotel Co., Ltd. ("Skyway") will be able to generate sufficient taxable profits in future years from sales of SRE Financial Centre, the property developed by Skyway, with total sellable area of 35,165 square meters and accordingly the deferred tax asset of approximately RMB117 million (approximately HK$149 million) was recognised. During the year, considering the scarcity and the value of properties in central business districts of Shanghai, and in order to expand the portfolio of scarce properties held by the Group, the management change its plan and transferred all the remaining unsold floor area of SRE Financial Centre amounting to 28,072 square meters from property held for sale to investment property. Due to this change in business plan, management re-assessed and wrote off the deferred tax asset of approximately RMB117 million (approximately HK$148 million) as rental income arising from the investment property would probably not be able to generate sufficient taxable income for the realisation of the deferred tax asset in the foreseeable future.

The share of taxes attributable to associates amounting to approximately nil (2013: HK$0.7 million) is included in "share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

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13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a loss of HK$69,774 thousand (2013: gain of HK$58,085 thousand) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS PAID AND PROPOSED

	2014	2013
Proposed final dividend	–	60,046

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2014 (2013: HK1.06 cents per share).

The 2013 proposed final dividend totaling HK$60,046,000 of HK1.06 cents per share was approved by the Company's shareholders at the annual general meeting on 29 May 2014 and was distributed in July 2014.

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

The calculation of the basic (loss)/earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,664,713 thousand (2013: 5,664,713 thousand) in issue during the year.

For the year ended 31 December 2013, the calculation of diluted earnings per share amounts did not take into account the convertible bonds (Note 33) of the Company, because they are anti-dilutive. Hence, the diluted earnings per share amounts are the same as the basic earnings per share for the year ended 31 December 2013.

The following reflects the income and share data used in the basic and diluted (loss)/earnings per share computations:

	2014	2013
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**(105,954)**	200,171

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

	Number of shares	
	2014	2013
	(Thousand shares)	(Thousand shares)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**5,664,713**	5,664,713

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

16. OTHER INTANGIBLE ASSETS

Group

	2014		
	Non-patented technology	**Others**	**Total**
Cost at 1 January 2014, net of accumulated amortisation	–	–	–
Acquisition of subsidiaries (Note 41)	**13,924**	**2,801**	**16,725**
Additions-internal development	–	**1,856**	**1,856**
Amortisation provided during the year	**(266)**	–	**(266)**
Disposal of subsidiaries (Note 42)	**(13,600)**	**(4,634)**	**(18,234)**
Exchange realignment	**(58)**	**(23)**	**(81)**
At 31 December 2014	–	–	–

The movements of other intangible assets represented the intangible assets acquired by the Group through the acquisition of equity interests in two subsidiaries in March 2014, which were subsequently disposed of in July and September 2014, respectively (see Note 41 and Note 42).

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17. PROPERTY, PLANT AND EQUIPMENT

Group

	2014					
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	534,176	3,710	391,437	70,196	753,387	1,752,906
Additions	–	991	6,397	1,963	388,096	397,447
Disposals	(12,083)	–	(857)	(5,979)	–	(18,919)
Acquisition of subsidiaries (Note 41)	–	–	1,126	–	–	1,126
Disposal of subsidiaries (Note 42)	–	–	(4,304)	–	(1,118)	(5,422)
Exchange realignment	(1,882)	(8)	(1,337)	(258)	(863)	(4,348)
End of year	520,211	4,693	392,462	65,922	1,139,502	2,122,790
Accumulated depreciation and impairment						
Beginning of year	88,050	678	260,988	59,606	–	409,322
Depreciation charge (Note 7)	14,199	712	32,340	3,217	–	50,468
Disposals	(1,817)	–	(787)	(5,464)	–	(8,068)
Acquisition of subsidiaries (Note 41)	–	–	632	–	–	632
Disposal of subsidiaries (Note 42)	–	–	(771)	–	–	(771)
Exchange realignment	(246)	1	(759)	(214)	–	(1,218)
End of year	100,186	1,391	291,643	57,145	–	450,365
Net carrying amount						
Balance, end of year	420,025	3,302	100,819	8,777	1,139,502	1,672,425
Balance, beginning of year	446,126	3,032	130,449	10,590	753,387	1,343,584

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	2013					
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	517,905	2,217	405,235	68,999	195,770	1,190,126
Additions	–	1,402	2,395	499	543,374	547,670
Disposals	–	–	(28,548)	(1,402)	–	(29,950)
Exchange realignment	16,271	91	12,355	2,100	14,243	45,060
End of year	534,176	3,710	391,437	70,196	753,387	1,752,906
Accumulated depreciation and impairment						
Beginning of year	71,657	417	251,004	52,121	–	375,199
Depreciation charge (Note 7)	13,934	244	27,799	6,755	–	48,732
Disposals	–	–	(25,730)	(969)	–	(26,699)
Exchange realignment	2,459	17	7,915	1,699	–	12,090
End of year	88,050	678	260,988	59,606	–	409,322
Net carrying amount						
Balance, end of year	446,126	3,032	130,449	10,590	753,387	1,343,584
Balance, beginning of year	446,248	1,800	154,231	16,878	195,770	814,927

Depreciation expenses of approximately HK$43,607 thousand (2013: approximately HK$37,701 thousand), of approximately HK$198 thousand (2013: approximately HK$206 thousand) and of approximately HK$6,663 thousand (2013: approximately HK$10,825 thousand) had been respectively expensed in the cost of goods sold, selling and marketing costs and administrative expenses.

As at 31 December 2014, the property, plant and equipment with a net carrying amount of HK$1,668,422 thousand (2013: HK$1,308,566 thousand) were pledged as collateral for the Group's bank loans and facilities (Note 30).

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2014		
	Furniture, fittings, fixtures and office equipment	Motor vehicles	Total
Cost			
Beginning of year	381	3,678	4,059
Additions	16	–	16
Disposals	(21)	–	(21)
Exchange realignment	1	(13)	(12)
End of year	377	3,665	4,042
Accumulated depreciation			
Beginning of year	308	2,922	3,230
Depreciation charge	12	383	395
Disposal	(19)	–	(19)
Exchange realignment	(1)	(8)	(9)
End of year	300	3,297	3,597
Net carrying amount			
Balance, end of year	77	368	445
Balance, beginning of year	73	756	829

	2013		
	Furniture, fittings, fixtures and office equipment	Motor vehicles	Total
Cost			
Beginning of year	528	3,566	4,094
Disposals	(175)	–	(175)
Exchange realignment	28	112	140
End of year	381	3,678	4,059
Accumulated depreciation			
Beginning of year	429	2,193	2,622
Depreciation charge	22	652	674
Disposal	(155)	–	(155)
Exchange realignment	12	77	89
End of year	308	2,922	3,230
Net carrying amount			
Balance, end of year	73	756	829
Balance, beginning of year	99	1,373	1,472

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18. INVESTMENT PROPERTIES

GROUP

Completed investment properties

	2014	2013
At beginning of year	**5,214,575**	4,792,658
Transfer from prepaid land lease payments (Note 19)	**37,817**	6,891
Transfer from properties held or under development for sale	**469,401**	88,223
Fair value gain (Note 6)	**993,326**	166,291
Addition in cost	**5,358**	5,964
Exchange realignment	**(11,167)**	154,548
At end of year	**6,709,310**	5,214,575

The investment properties as at 31 December 2014 mainly represent the properties as follows:

– Portions of eight multi-storey shopping malls and car-park places at Putuo District, Shanghai, with a total fair value of approximately HK$1,280 million, for which the operating leases entered into have terms ranging from 2 to 15 years;

– A seven-storey shopping mall at Shenhe District, Shenyang, with a total fair value of approximately HK$3,429 million, for which the operating leases entered into have terms ranging from 1 to 15 years;

– A supermarket shopping mall at Zhabei District, Shanghai with a fair value of approximately HK$456 million, for which the operating lease has a term of 20 years;

– 108 suits of office of SRE Financial Centre at Huangpu District, Shanghai, with a total fair value of approximately HK$1,524 million, for which the operating leases entered into have terms ranging from two to three years.

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**6,417,788**	**6,417,788**
Car parks	**–**	**–**	**291,522**	**291,522**
	–	**–**	**6,709,310**	**6,709,310**

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:				
Commercial properties	–	–	4,923,542	4,923,542
Car parks	–	–	291,033	291,033
	–	–	5,214,575	5,214,575

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

Fair value hierarchy (continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties	Car parks	Total
Carrying amount at 1 January 2013	4,533,193	259,465	4,792,658
Transfer from prepaid land lease payments (Note 19)	6,891	–	6,891
Transfer from properties held or under development for sale	88,223	–	88,223
Fair value gain (Note 6)	143,218	23,073	166,291
Addition in cost	5,964	–	5,964
Exchange realignment	146,053	8,495	154,548
Carrying amount at 31 December 2013 and 1 January 2014	4,923,542	291,033	5,214,575
Transfer from prepaid land lease payments (Note 19)	37,817	–	37,817
Transfer from properties held or under development for sale	*469,401	–	469,401
Fair value gain (Note 6)	991,847	1,479	993,326
Addition in cost	5,358	–	5,358
Exchange realignment	(10,177)	(990)	(11,167)
Carrying amount at 31 December 2014	6,417,788	291,522	6,709,310

* During the year, considering the scarcity and the value of properties in central business districts of Shanghai, and in order to expand the portfolio of scarce properties held by the Group, the management change its plan and transferred all the unsold floor storeys of SRE Financial Centre from property held for sale to investment property.

As at 31 December 2014, the Group's investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), an independent professionally qualified property valuer and consultant. The valuations were performed based on the income approach (term and reversion method or direct capitalisation method) or direct comparison approach for those investment properties. The following significant unobservable inputs have been used:

Yield	2014	2013
Shanghai Oasis Central Ring Centre – Office	4%–4.5%	4%–4.5%
Shanghai Oasis Central Ring Centre – Shopping Mall	6%–6.5%	6%–6.5%
Shenyang Richgate Shopping Mall	5%–6%	5%–6%
Shanghai Shuocheng Supermarket	5%–5.5%	5%–5.5%
SRE Financial Centre	*	–

* Direct Comparison Approach was adopted in the valuation of SRE Financial Centre.

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

18. INVESTMENT PROPERTIES (continued)

GROUP (continued)

Fair value hierarchy (continued)

The term and reversion method measures the fair value of the property by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The direct capitalisation method measures the fair value of the property by assuming a stabilised economic income capitalised by a market yield rate. The market yield was developed based on the research on the sales and rental evidences of the similar properties in the surrounding market and assuming the existing tenancy will be extended. A significant increase/(decrease) in the estimated market yield would result in a significant decrease/(increase) in the fair value of the investment properties.

The direct comparison approach measures the fair value of the property with reference to the sales transactions of the comparable properties as available in the market and the consideration of due adjustments for differences between the subject property and the comparable ones. The adjustments would reflect the differences in location, infrastructure availability, neighbourhood environment, and size of the properties in the determination of the adjusted price. A significant increase/(decrease) in the adjusted unit price of comparable properties would result in a significant increase/(decrease) in the fair value of the investment properties.

The Group's investment properties are all situated in Mainland China and are held under medium-term (less than 50 years but not less than 10 years) leases.

As at 31 December 2014, the Group's investment properties of approximately HK$6,488 million (2013: HK$5,194 million) were pledged as collateral for the Group's bank loans and facilities (Note 30).

The following amounts relating to the investment properties have been recognised in profit or loss:

	2014	2013
Rental income (Note 5)	**115,685**	96,596
Direct operating expenses arising from investment properties that generate rental income	**(25,567)**	(30,300)
Gain from increase in fair value (Note 6)	**993,326**	166,291

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19. PREPAID LAND LEASE PAYMENTS

GROUP

	2014	2013
In Mainland China, held on:		
– Leases of over 50 years	**7,032,871**	8,356,624
– Leases of between 10 and 50 years	**5,293,346**	3,081,766
	12,326,217	11,438,390

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2014	2013
At beginning of year	**11,438,390**	11,401,950
Additions	**1,263,119**	227,838
Transfer to investment properties (Note 18)	**(37,817)**	(6,891)
Amortisation capitalised as properties under development for sale	**(202,150)**	(244,410)
Disposals with the sale of completed properties	**(106,899)**	(289,140)
Disposals of property, plant and equipment	**(3,297)**	–
Amortisation provided during the year	**(4,477)**	(4,451)
Exchange realignment	**(20,652)**	353,494
At end of year	**12,326,217**	11,438,390
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	**133,023**	137,806
Current: In relation to properties held or under development for sale	**12,193,194**	11,300,584
	12,326,217	11,438,390

As at 31 December 2014, the Group's leasehold land of approximately HK$7,711 million (2013: HK$8,718 million) was pledged as collateral for the Group's bank loans and facilities (Note 30).

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20. GOODWILL

GROUP

	2014	2013
Cost		
At beginning of year	**726,100**	703,947
Acquisition of subsidiaries (Note 41)	**14,729**	–
Disposal of subsidiaries (Note 42)	**(14,668)**	–
Exchange realignment	**(2,550)**	22,153
At end of year	**723,611**	726,100
Accumulated impairment		
At beginning of year	**74,792**	55,548
Impairment losses recognised (Note 6)	**79,398**	17,206
Exchange realignment	**92**	2,038
At end of year	**154,282**	74,792
Net carrying amount		
Balance, end of year	**569,329**	651,308
Balance, beginning of year	**651,308**	648,399

Impairment testing of goodwill

Goodwill acquired through certain business combinations has been mainly allocated to the following cash-generating units for impairment testing:

– Shenyang Albany Oasis Garden

– Richgate I

– Huating

These cash-generating units are parcels of land in the cities of Shenyang and Shanghai and properties currently under development on these parcels will be available for sale in the forthcoming one to four years.

The recoverable amounts of Shenyang Albany Oasis Garden, Richgate I and Huating property development project cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering four-year, five-year and two-year periods respectively, approved by management. The pre-tax discount rates applied to the cash flow projections are 26.6% (2013: 20.5%), 11.3% (2013: 12.1%) and 32.4% (2013: 18.4%), respectively. Professional valuer, Jones Lang LaSalle, was engaged to assist the Group in determining the estimated values in use.

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20. GOODWILL (continued)

The cost of goodwill allocated to each of the major cash-generating units before impairment is as follows:

	2014	2013
Shenyang Albany Oasis Garden (a)	**401,385**	402,763
Richgate I	**96,167**	96,498
Huating	**182,981**	183,610
Lushan project (b)	**6,230**	6,251
Others	**36,848**	36,978
	723,611	726,100

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill with the assistance from Jones Lang LaSalle:

– Selling prices – The market prices of comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

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

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts, and are consistent with external information sources.

As at 31 December 2014, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") was higher than its recoverable amount. Considering the current market condition in Shenyang and the actual selling price of Shenyang Albany Oasis Garden (Phase II), the management estimated that the future cash flows that could be generated from the sale of this property (including the remaining of developed Phase II and the Phase III under development) would probably be reduced, resulting in the significant decrease of value-in-use. As a result, the Company provided an impairment loss of RMB58 million (approximately HK$73 million) in the Group's consolidated financial statements for the year ended 31 December 2014.

As at 31 December 2014, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Shanghai Lushan Real Estate Ltd. ("Lushan") was higher than its recoverable amount. Due to the increase of construction cost of the properties developed by Lushan ("Lushan project") in the current year, the amount of value-in-use of the cash-generating unit was below its carrying amount as of 31 December 2014. As a result, the Company provided an impairment loss of RMB5 million (approximately HK$6 million) in the Group's consolidated financial statements for the year ended 31 December 2014.

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	2014	2013
Unlisted equity interests, at cost	**5,110,023**	5,127,579

As at 31 December 2014, the Company had direct or indirect interests in the following principal subsidiaries:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Sinopower Investment Limited	British Virgin Islands ("BVI") 1 October 1998	100%	–	US$52	US$50,000	Investment holding
Shanghai Xin Dong Industry Co., Ltd.	PRC/Mainland China 28 May 1993	–	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd.	PRC/Mainland China 1 September 1995	–	100%	RMB42,200,000	RMB42,200,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd.	PRC/Mainland China 29 September 1998	–	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC/Mainland China 4 August 1999	–	98.96%	US$20,000,000	US$20,000,000	Development of technology housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd.	PRC/Mainland China 11 August 2000	–	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29 September 2001	–	52%	US$100	US$50,000	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd.	PRC/Mainland China 16 April 2002	–	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC/Mainland China 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC/Mainland China 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Jinwu Real Estate Co., Ltd.	PRC/Mainland China 12 August 2002	–	95.79%	US$54,962,000	US$54,962,000	Property development and property leasing
Shanghai Jinxin Real Estate Co., Ltd.	PRC/Mainland China 28 October 2002	–	100%	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Hotel Co., Ltd.	PRC/Mainland China 9 December 2002	–	55.42%	RMB200,000,000	RMB200,000,000	Hotel operations
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management") (i)	PRC/Mainland China 30 October 2007	–	100%	US$31,936,200	US$31,936,200	Property leasing
Shanghai Shuo Cheng Real Estate Co., Ltd.	PRC/Mainland China 29 January 2003	–	100%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 16 October 2008	–	98.75%	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC/Mainland China 4 December 2000	–	97.5%	RMB750,000,000	RMB750,000,000	Property development
Haikou Century Harbour City Co., Ltd. ("Haikou Century")	PRC/Mainland China 25 June 2008	–	79%	RMB220,000,000	RMB220,000,000	Property development
Shenyang Lukang Real Estate Ltd.	PRC/Mainland China 13 July 2007	–	98.95%	US$31,250,000	US$31,250,000	Property development
Haikou Century Richgate Business Administration Co., Ltd.	PRC/Mainland China 20 October 2008	–	100%	US$300,000	US$300,000	Hotel administration
Shanghai Lushan Real Estate Ltd.	PRC/Mainland China 4 August 2004	–	27.70%	RMB11,110,000	RMB11,110,000	Property development
Shanghai Xiangdao Real Estate Ltd.	PRC/Mainland China 21 July 2009	–	98.75%	RMB330,000,000	RMB330,000,000	Property development

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Xiabo Industry Ltd.	PRC/Mainland China 14 September 1995	–	98.75%	RMB3,000,000	RMB3,000,000	Property development
Shanghai Haibo Property Development Co., Ltd.	PRC/Mainland China 27 December 1996	–	98.75%	RMB15,000,000	RMB15,000,000	Property development
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC/Mainland China 16 May 2002	–	50.36%	RMB605,500,000	RMB605,500,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd.	PRC/Mainland China 11 July 2008	–	98.75%	RMB85,000,000	RMB85,000,000	Property development
Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing")	PRC/Mainland China 27 January 2007	–	98.75%	RMB20,000,000	RMB20,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd.	PRC/Mainland China 26 September 2007	–	98.75%	US$49,900,000	US$49,900,000	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC/Mainland China 14 March 2011	–	98.96%	RMB30,000,000	RMB30,000,000	Procurement management
Shanghai Lake Malaren Property Management Co., Ltd.	PRC/Mainland China 23 June 2005	–	100%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Qian Ying Finance Service Co., Ltd. (*)	PRC/Mainland China 26 Nov 2012	–	98.96%	RMB5,000,000	RMB5,000,000	Procurement management
Dalian Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 19 July 2013	–	50.36%	RMB30,000,000	RMB30,000,000	Property development
Shanghai Dinan Real Estate Development Ltd. (**)	PRC/Mainland China 5 August 2014	–	98.75%	RMB30,000,000	RMB30,000,000	Property development
Shanghai Xiang Zhi Investment Ltd. (**)	PRC/Mainland China 11 June 2014	–	98.75%	RMB100,000,000	RMB100,000,000	Investment
Shanghai Zhi Yi Investment Ltd. (**)	PRC/Mainland China 21 January 2014	–	98.96%	RMB100,000,000	RMB790,000,000	Investment

* Shanghai Qian Ying Finance Service Co., Ltd. was previously named as Shanghai Zhihui Construction Co., Ltd.

** Newly established subsidiaries in the current year

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

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

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI or Hong Kong with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

Details of the Group's subsidiary that has material non-controlling interest are set out below:

	2014	2013
Percentage of equity interest held by non-controlling interest:		
Skyway	**44.58%**	44.00%
Profit/(loss) for the year allocated to non-controlling interest:		
Skyway	**258,301**	(18,998)
Accumulated balance of non-controlling interests at the reporting dates:		
Skyway	**96,288**	(161,033)

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

Skyway	**2014**	2013
Revenue	**379,109**	351,810
Total expense	**406,579**	350,438
Other Gain	**1,016,241**	1,535
Profit/(loss) for the year	**579,396**	(43,178)
Total comprehensive income/(loss) for the year	**579,396**	(43,178)
Current assets	**42,108**	624,803
Non-current assets	**2,335,340**	897,471
Current liabilities	**60,831**	124,718
Non-current liabilities	**2,100,633**	1,763,539
Net cash flows used in operating activities	**(22,010)**	(372,023)
Net cash flows used in investing activities	**(1,067)**	(2,429)
Net cash flow from financing activities	**13,604**	374,759
Effect of foreign exchange rate changes, net	**(137)**	821
Net (decrease)/increase in cash and cash equivalents	**(9,610)**	1,128

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21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES (continued)

(b) Advances to subsidiaries

COMPANY

All the advances to subsidiaries as at 31 December 2014 and 2013 were unsecured, interest-free and had no fixed repayment terms.

22. INVESTMENTS IN ASSOCIATES

GROUP

	2014	2013
Unlisted equity interests		
Share of net assets	57,512	75,939
Less: Provision for impairment	–	–
	57,512	75,939

As at the 31 December 2014, the Company had indirect interests in the following principal associates:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC//Mainland China 6 May 1997	–	26%**	RMB50,000,000	RMB50,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC/Mainland China 24 October 2000	–	19.80%*	RMB100,000,000	RMB100,000,000	Development and sale of netware and construction of broadband fibre projects

* The Group considered that it is able to exercise significant influence over Broadband through its non-wholly-owned subsidiary which holds a 20% equity interest in Broadband.

** New Technology reduced its capital from RMB100 million to RMB50 million in the current year, as a result, RMB13 million was returned to the Group with the proportion of equity share of 26% unchanged.

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22. INVESTMENTS IN ASSOCIATES (continued)

GROUP (continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

The financial year end dates of the above associates are coterminous with that of the Group.

The Group's shareholdings in the associates comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in the consolidated financial statements.

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) Broadband

	2014	2013
Current assets	167,050	180,721
Non-current assets	55,161	56,640
Current liabilities	(41,399)	(43,255)
Net assets	180,812	194,106
Revenue	128,394	145,053
Profit after tax	1,125	17,165
Total comprehensive income for the year	1,125	17,165
Dividend received	3,111	7,800

(2) New Technology

	2014	2013
Current assets	41,481	99,222
Non-current assets	35,836	35,808
Current liabilities	(4,850)	(3,400)
Net assets	72,467	131,630
Revenue	4,634	4,439
Profit after tax	4,647	5,432
Total comprehensive income for the year	4,647	5,432
Dividend received	–	–

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23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2014	2013
At cost		
– In Shanghai City, PRC	**5,888,666**	5,015,441
– In Shenyang City, PRC	**2,013,990**	1,396,608
– In Wuxi City, PRC	**353,003**	356,103
– In Jiaxing City, PRC	**984,606**	1,113,850
– In Haikou City, PRC	**93,118**	109,136
– In Dalian City, PRC	**34,269**	–
	9,367,652	7,991,138

GROUP

	2014	2013
Properties held or under development expected to be completed		
– Within one year	**4,183,162**	4,041,853
– After one year	**5,184,490**	3,949,285
	9,367,652	7,991,138

As at 31 December 2014 and 2013, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities (see Note 30).

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		**Company**	
	2014	2013	**2014**	2013
Non-current				
Prepayment (a)	**6,338**	6,360	–	–
Current				
Prepaid business tax	**67,448**	41,393	–	–
Prepayments (b)	**1,313,159**	75,372	–	–
Prepaid relocation compensation to a local government authority (c)	**1,977,437**	1,017,553	–	–
Others	**14,575**	11,022	**7,487**	2,881
	3,372,619	1,145,340	**7,487**	2,881

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24. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

(a) On 12 December 2013, the Company signed a letter of intent with a third party (the "Vendor") to acquire 100% equity interest in a real estate company in Shanghai for a total consideration of RMB800 million (HK$1,018 million). In connection with this transaction, the Group paid RMB5 million (equivalent to HK$6 million) to the Vendor as earnest money. Due diligence for this project has been completed and it is now pending upon the local government's approval.

(b) The prepayments as at 31 December 2014 mainly included approximately HK$701 million (2013: HK$50 million) of prepayments for properties under development, HK$607 million (2013: nil) of prepayments for leasehold land.

(c) The balance as at 31 December 2014 represented a prepayment of RMB1,560 million (approximately HK$1,977 million) (2013: RMB800 million (approximately HK$1,018 million)) to a local government authority as prepaid relocation compensation of Richgate I project in Shanghai.

25. OTHER RECEIVABLES

GROUP

	2014	2013
Receivables in connection with acquisition of Konmen Investment Limited (a)	**183,427**	185,090
Receivable from a disposed subsidiary	**2,535**	–
Receivables due from a former subsidiary (b)	–	139,914
Deposit for a real estate project	**12,676**	12,719
Relocation compensation receivable from the government	–	32,267
Deposit for land bidding	–	20,351
Interest receivable	**62,460**	30,769
Others	**130,692**	85,387
	391,790	506,497
Less: Provision for impairment	**(2,672)**	(2,681)
Other receivables, net	**389,118**	503,816

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

25. OTHER RECEIVABLES (continued)

GROUP (continued)

(a) On 17 August 2007, SRE Investment Holding Limited ("SREI", or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen, which held a 70% interest in Liaoning Gao Xiao, at a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor at a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing shares to the Vendor.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen.

According to the above agreements, the Original Shareholder agreed to pay for the purchase of land use right that will be held by Liaoning Gao Xiao, to bear certain liabilities ("the Liabilities") of Liaoning Gao Xiao and to reimburse Liaoning Gao Xiao the relevant amounts incurred in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts reimbursed by the Original Shareholder under such arrangements are made to the Vendor, the Vendor agreed to transfer such amounts to the Group.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the above-mentioned amounts, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In the event that Liaoning Gao Xiao failed to obtain the relevant land use right by 30 June 2009, the Vendor would undertake to pay the Company HK$1,600 million in cash on or before 30 December 2009. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its right under the above agreements and shall delay enforcement against the Vendor to 31 December 2012. In early 2013, the Group received from the Vendor the full settlement of the Land Purchase Cost and Liaoning Gao Xiao has consequently obtained the land use rights certificates for the entire site area of the Land.

As of 31 December 2014, the amount which would have to be reimbursed from the Vendor according to the agreements above, as such amount has not been paid for by the Original Shareholder or the Original Minority Shareholder, was approximately RMB145 million (approximately HK$183 million) (2013: approximately RMB145 million (approximately HK$185 million)).

(b) The other receivables balance as at 31 December 2013 represented a receivable of RMB110 million from a former subsidiary, arising from intra-group transactions between the former subsidiary and other subsidiaries of the Group before the Group disposed of the former subsidiary in 2012. Such amounts were fully settled in the current year.

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

26. TRADE RECEIVABLES

GROUP

	2014	2013
Trade receivables	**57,498**	45,680
Less: Provision for impairment	**(10,142)**	(10,177)
	47,356	35,503

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2014	2013
Within 6 months	**37,164**	26,176
6 months to 1 year	**1,632**	379
1 to 2 years	**1,019**	7,913
Over 2 years	**17,683**	11,212
	57,498	45,680

The Group's sales of development properties and hotel operations are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are generally within six months.

The Group's other trade receivables are related to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2014	2013
Neither past due nor impaired	**41,343**	31,702
Past due but not impaired:		
Within 30 days	**280**	130
30 to 60 days	**–**	1,954
60 to 90 days	**551**	–
Over 120 days	**5,182**	1,717
	47,356	35,503

Receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

26. TRADE RECEIVABLES (continued)

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

	2014	2013
At beginning of year	**10,177**	10,617
Reversal of impairment	–	(773)
Exchange realignment	**(35)**	333
At end of year	**10,142**	10,177

No provision for impairment of trade receivables (2013: HK$773 thousand) was reversed during the year ended 31 December 2014.

27. CASH AND BANK BALANCES

	Group		Company	
	2014	2013	**2014**	2013
Cash on hand	**2,623**	2,719	**19**	28
Demand and notice deposits	**569,556**	1,379,501	**58,467**	56,670
Cash and cash equivalents	**572,179**	1,382,220	**58,486**	56,698
Time deposits with original maturity of more than three months	–	2,544	–	–
Pledged bank deposits (a)	**1,501,711**	1,538,293	–	–
Restricted bank deposits under a development project (b)	**2,044**	9,180	–	–
Restricted bank deposits relating to bank borrowings (c)	**33,063**	8,859	–	–
Cash and bank balances	**2,108,997**	2,941,096	**58,486**	56,698

(a) As at 31 December 2014, bank deposits of approximately HK$1,502 million (2013: HK$1,538 million) were pledged as securities for bank borrowings (Note 30).

(b) The balance represented deposits that are restricted from use, as a result of the guarantees provided by the Group in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties.

(c) An amount of HK$33 million (2013: HK$9 million) is restricted in connection with bank borrowings.

27. CASH AND BANK BALANCES (continued)

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	Group		Company	
	2014	2013	**2014**	2013
Hong Kong dollars	**36,755**	55,901	**36,731**	55,847
United States dollars	**16,032**	6,823	**12,190**	822
Singapore dollars	**1**	1	**1**	1
Australia dollars	**9,545**	73,968	**9,545**	–
RMB	**2,046,664**	2,804,403	**19**	28
	2,108,997	2,941,096	**58,486**	56,698

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents pledged and restricted deposits approximate to their fair values.

28. ISSUED SHARE CAPITAL AND PREMIUM

GROUP AND COMPANY

		Amount		
	Number of shares (thousands)	**Issued capital**	**Share premium**	**Total**
At 1 January 2013, 31 December 2013 and 2014	**5,664,713**	**566,471**	**5,434,267**	**6,000,738**

The total authorised number of ordinary shares is 8,000 million (2013: 8,000 million), each share with a par value of HK$0.10 (2013: HK$0.10). All issued shares are fully paid up.

No share options of the Company were outstanding as at 31 December 2014 and 2013.

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29. RESERVES

(a) GROUP

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

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

(b) COMPANY

	Exchange fluctuation reserve	**Equity component of convertible bonds**	**Retained profits/ (accumulated losses)**	**Others**	**Total**
Balance at 1 January 2014	**1,254,059**	**2,810**	**4,900**	**179,875**	**1,441,644**
Total comprehensive income for the year	**(25,779)**	**–**	**(69,774)**	**–**	**(95,553)**
Transfer upon the redemption of CB4	**–**	**(2,810)**	**–**	**2,810**	**–**
Balance at 31 December 2014	**1,228,280**	**–**	**(64,874)**	**182,685**	**1,346,091**

	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits	Others	Total
Balance at 1 January 2013	1,026,466	2,810	6,861	179,875	1,216,012
Total comprehensive income for the year	227,593	–	58,085	–	285,678
Proposed final 2013 dividend	–	–	(60,046)	–	(60,046)
Balance at 31 December 2013	1,254,059	2,810	4,900	179,875	1,441,644

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30. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
Short-term bank borrowings				
– Secured	**602,472**	494,276	**–**	–
Other short-term borrowings				
– Secured	**938,040**	–	**–**	–
– Unsecured	**330,295**	422,920	**–**	–
Current portion of long-term bank borrowings				
– Secured	**2,339,345**	1,593,376	**1,234,048**	1,193,986
Current portion of other long-term borrowings				
– Secured	**3,019,017**	2,811,890	**–**	–
Borrowings, current portion	**7,229,169**	5,322,462	**1,234,048**	1,193,986
Long-term bank borrowings				
– Secured	**10,295,570**	9,208,479	**179,992**	216,385
Other long-term borrowings				
– Secured	**1,876,030**	915,798	**–**	–
– Unsecured	**193,403**	109,663	**193,403**	109,663
Borrowings, non-current portion	**12,365,003**	10,233,940	**373,395**	326,048
The long-term borrowings are repayable as follows:				
– Within 1 year	**5,358,362**	4,405,266	**1,234,048**	1,193,986
– 1 to 2 years	**3,220,608**	1,642,026	**179,992**	18,006
– 2 to 3 years	**2,360,110**	1,232,111	**–**	198,379
– 3 to 5 years	**5,794,768**	6,164,845	**–**	–
– After 5 years	**989,517**	1,194,958	**193,403**	109,663
	17,723,365	14,639,206	**1,607,443**	1,520,034
Less: Long-term borrowings, current portion	**(5,358,362)**	(4,405,266)	**(1,234,048)**	(1,193,986)
Long-term borrowings, non-current portion	**12,365,003**	10,233,940	**373,395**	326,048

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31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

Short-term bank borrowings – secured

As at 31 December 2014, short-term bank borrowings of approximately HK$602 million (2013: approximately HK$494 million) was secured by the pledge of bank deposits, leasehold land, properties held or under development for sale and investment properties. Among the above short-term bank borrowings, bank loans with a total principal of HK$40 million were guaranteed by Mr. Shi Jian, the Chairman of the Company, and Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

Other short-term borrowings – secured

As at 31 December 2014, other short-term borrowings of approximately HK$938 million (2013: Nil) were secured by the pledges of the Group's leasehold land and an equity interest of a subsidiary.

Long-term bank borrowings – secured

As at 31 December 2014, long-term bank borrowings of approximately HK$12,635 million (2013: approximately HK$10,802 million) were secured by the pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, properties held or under development for sale and equity interests of subsidiaries. Among the above long-term bank borrowings, a bank loan with a principal of HK$220 million was secured by the pledge of a private property held by Mr. Shi Jian and Md. Si Xiao Dong. A bank loan with a principal of HK$692 million was guaranteed by Mr. Shi Jian, and Md. Si Xiao Dong.

Other long-term borrowings – secured

As at 31 December 2014, long-term borrowings of approximately HK$4,895 million (2013: approximately HK$3,728 million) were from third party trust funds which are secured by the pledges of the Group's leasehold land, properties held or under development for sale, and equity interests in certain subsidiaries of the Group and entitlement to certain economic benefits (including right to dividends, if any, etc.) in such equity interests. The Group has the right to repay the loans (the outstanding balances of principal and interest thereon) in full, at any time or during specified periods prior to expiry of the terms of the loans. Among the above other long-term borrowings, a term loan with a principal of HK$1,838 million was guaranteed by SREI and Mr. Shi Jian, and another term loan with a principal of HK$634 million was guaranteed by Mr. Shi Jian.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2014, bank deposits of approximately HK$1,502 million (2013: approximately HK$1,538 million) (Note 27), leasehold land of approximately HK$7,711 million (2013: approximately HK$8,718 million) (see Note 19), investment properties of approximately HK$6,488 million (2013: approximately HK$5,194 million) (Note 18), properties held or under development for sale of approximately HK$6,822 million (2013: approximately HK$5,113 million), property, plant and equipment of approximately HK$1,668 million (2013: approximately HK$1,309 million) (see Note 17) and equity interests in certain subsidiaries with total costs of approximately HK$3,181 million (2013: approximately HK$5,621 million) were pledged as collateral for the Group's borrowings and banking facilities.

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

The weighted average effective interest rates for these borrowings at the end of the reporting period were as follows:

	2014			2013		
	HK$	**US$**	**RMB**	HK$	US$	RMB
Short-term bank borrowings	**–**	**–**	**6.60%**	–	–	6.08%
Other short-term borrowings	**–**	**–**	**10.76%**	–	–	7.80%
Long-term bank borrowings	**2.81%**	**1.37%**	**7.12%**	2.17%	1.40%	6.88%
Other long-term borrowings	**8.16%**	**–**	**12.17%**	8.16%	–	13.22%

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2014	2013	**2014**	2013
Hong Kong dollars	**1,033,472**	946,172	**1,033,472**	946,172
United States dollars	**573,971**	573,862	**573,971**	573,862
RMB	**17,986,729**	14,036,368	**–**	–
	19,594,172	15,556,402	**1,607,443**	1,520,034

The Group had the following undrawn credit facilities as at the end of the reporting period:

	2014	2013
Floating rate loan facilities		
– expiring within one year	**31,690**	195,332
– expiring beyond one year	**616,290**	1,064,615
	647,980	1,259,947

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31. AVAILABLE-FOR-SALE INVESTMENTS

GROUP

	2014	2013
Unlisted equity investment, at cost	**12,676**	–

The above investment represents the investment in an unlisted company in Mainland China.

32. DEFERRED TAX

GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority on the same taxable entity.

The gross movements in the deferred tax account are as follows:

	2014	2013
At beginning of year	**1,433,499**	1,366,686
Recognised in profit or loss (Note 12)	**330,461**	23,526
Exchange realignment	**(3,440)**	43,287
At end of year	**1,760,520**	1,433,499

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

Deferred tax assets

	Tax losses carried forward	**Difference in accounting and tax bases arising from share transfer consideration**	**Other temporary differences**	**Total**
At 1 January 2013	208,000	299,329	26,287	533,616
Recognised in profit or loss	(58,058)	–	18,588	(39,470)
Exchange realignment	5,671	1,639	8,868	16,178
At 31 December 2013	155,613	300,968	53,743	510,324
Recognised in profit or loss	(130,923)	–	17,182	(113,741)
Exchange realignment	(1,113)	(184)	(954)	(2,251)
At 31 December 2014	**23,577**	**300,784**	**69,971**	**394,332**

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32. DEFERRED TAX (continued)

GROUP (continued)

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

Deferred tax liabilities

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2013	662,103	602,000	379,658	256,541	1,900,302
Recognised in profit or loss	41,032	(17,565)	10,786	(50,197)	(15,944)
Exchange realignment	21,413	18,652	12,088	7,312	59,465
At 31 December 2013	724,548	603,087	402,532	213,656	1,943,823
Recognised in profit or loss	249,149	(11,530)	(8,093)	(12,806)	216,720
Exchange realignment	(1,382)	(2,108)	(1,413)	(788)	(5,691)
At 31 December 2014	**972,315**	**589,449**	**393,026**	**200,062**	**2,154,852**

As at 31 December 2014, the deferred tax asset arising from unused tax losses amounted to approximately HK$24 million (2013: HK$156 million). With respect to the recognition of the deferred tax assets, after considering the evidence including the approval from local authorities permitting the sales of the properties, and estimated future taxable profit by reference to recent selling prices of certain properties and current market condition, the Group believes that sufficient taxable profit will be available against which the unused tax losses can be utilised in the foreseeable future.

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

	2014	2013
Tax losses	**1,309,413**	673,782

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

Pursuant to the resolution of the board of directors of the Company, part of PRC subsidiaries' profits generated from 2011 onwards will be retained by PRC subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not be reversed in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$940 million (2013: approximately HK$979 million).

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

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33. CONVERTIBLE BONDS

GROUP AND COMPANY

The carrying value of the host debt components of the convertible bonds as at the end of the reporting period was as follows:

	2014	2013
Convertible Bonds 4 – host debt	–	8,332

On 23 July 2009, the Company issued Convertible Bonds 4 (the "CB4"), maturing on 23 July 2014, in the aggregate principal amount of RMB446.9 million with an initial conversion price of HK$1.056 per share at a fixed exchange rate applicable to the conversion of RMB0.8818 = HK$1.00 per ordinary share of the Company. The CB4 bear interest at the coupon rate of 6% per annum, and are payable semi-annually in arrears. The bondholders can convert the CB4 to ordinary shares of the Company at any time after 41 days from the 23 July 2009 to 10 business days before maturity. On 23 July 2012, the bondholders have the right (the "Put Option") to require the Company to redeem all or some of the CB4 at a redemption price equal to 100% of their principal amount, together with unpaid accrued interest. The Company also had the option to redeem, at an amount at 100% of the principal amount, all of the CB4 if at least 90% in the principal amount of the CB4 originally issued have already been converted, redeemed or purchased and cancelled before 30 days prior to its maturity date.

On 24 July 2009, the CB4 were listed on the HKEx.

The conversion option embedded in the CB4 meets the definition of equity instruments of the Company, and therefore it is classified as equity and presented separately from the liability component of the convertible bonds. The liability component is initially recognised at its fair value, net of transaction costs allocated to the liability component, and is subsequently measured at amortised cost.

On 23 July 2012, an aggregate principal amount of RMB440 million (approximately HK$541 million) was redeemed due to the exercise of the Put Option by the bondholders. As a result, the redeemed portion of CB4's liability component was derecognised, and the resulting gain of HK$7 million, i.e., the difference between the portion of the redemption price of RMB434 million (approximately HK$534 million) allocated to the liability component and their carrying amount of RMB440 million (approximately HK$541 million), was recognised in profit or loss, while the portion of the redemption price of RMB6 million (approximately HK$7 million) allocated to equity component was recognised in equity. Meanwhile, HK$169 million, portion of the equity component of the CB4 relating to the redeemed part of the CB4, was transferred from the equity component of the convertible bonds to other reserves.

On 23 July 2014, the remaining portion of the CB4 with a face value of RMB7 million (approximately HK$9 million) was redeemed. Meanwhile, HK$2,810 thousand, portion of the equity component of the CB4 relating to the redeemed part of the CB4, was transferred from the equity component of the convertible bonds to other reserves.

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33. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY (continued)

There was no outstanding balance for the CB4 as at 31 December 2014. The movements in the host debt component of the CB4 for the year were as follow:

	2014	2013
Host debt component at beginning of year	**8,332**	7,183
Interest expense (Note 9)	**872**	1,429
Payment of interest	**(305)**	(519)
Redemption	**(8,813)**	–
Exchange realignment	**(86)**	239
Host debt component at end of year	**–**	8,332

Interest expenses on the CB4 are calculated using the effective interest method by applying the effective interest rate of 19.93% per annum to the host debt component.

34. OTHER NON-CURRENT ASSETS

GROUP

	2014	2013
Other receivables (a)	**17,746**	–
Others (b)	**16,479**	–
	34,225	–

(a) As at 31 December 2014, the amount represented the cash consideration for disposal of a subsidiary (Note 42). The amount will be settled by the original shareholders within five years.

(b) As at 31 December 2014, the amount represented the non-cash consideration for disposal of a subsidiary (Note 42). The amount will be settled by future purchase of inventories from the former subsidiary within five years.

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35. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2014	2013
Advances received from the pre-sale of properties under development	**1,542,255**	1,177,218

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing. Business tax, generally calculated at a rate of 5% on the advances received, is imposed by the tax authorities.

36. TRADE PAYABLES

GROUP

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2014	2013
Within 1 year	**1,426,815**	1,169,764
1 to 2 years	**371,478**	433,290
Over 2 years	**337,344**	200,989
	2,135,637	1,804,043

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

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37. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	**2014**	2013
Deposits received from and other payable to customers and construction companies	**50,676**	104,192	–	–
Business tax and surtaxes payable	**44,464**	44,141	–	–
Interest payable to a former non-controlling shareholder of a subsidiary	**1,193**	6,285	–	–
Payable to a non-controlling shareholder	–	10,621	–	–
Dividends payable to non-controlling shareholders of subsidiaries	**42,270**	42,417	–	–
Relocation costs payable	**335,469**	2,235	–	–
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	**56,779**	50,264	–	–
Payroll and welfare payable	**9,324**	10,810	–	–
Accrued interest	**46,649**	11,834	–	875
Payables to former shareholders of a subsidiary for business combination	**12,929**	19,434	–	–
Payables to former shareholders of subsidiaries for acquisition of non-controlling interests	**21,803**	21,623	–	–
Payable to the former non-controlling shareholder of a subsidiary disposed of	**25,352**	25,439	–	–
Advance received in relation to a potential borrowing	–	10,000	–	10,000
Others	**74,621**	61,726	**1,459**	1,457
	721,529	421,021	**1,459**	12,332

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38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash used in operations:

	2014	2013
Profit before tax	**567,875**	499,739
Adjustments for:		
Depreciation of items of property, plant and equipment	**50,468**	48,732
Amortisation of intangible assets	**266**	–
Reversal of impairment of receivables	**–**	(817)
(Gain)/loss on disposal of items of property, plant and equipment, net	**(43,079)**	2,407
Share of profits of associates	**(1,431)**	(4,846)
Fair value gain on investment properties	**(993,326)**	(166,291)
Impairment of goodwill	**79,398**	17,206
Gain on disposal of subsidiaries	**(1,662)**	–
Finance income	**(99,204)**	(87,455)
Finance costs	**456,753**	352,117
	16,058	660,792
Decrease in restricted bank deposits	**7,136**	998
(Increase)/decrease in prepaid land lease payments	**(960,697)**	310,166
Increase in properties held or under development for sale	**(796,051)**	(214,931)
Increase in inventories	**(19,625)**	(225)
Increase in prepayments and other current assets	**(2,218,161)**	(950,273)
Decrease in other receivables	**46,245**	160,240
Increase in trade receivables	**(10,890)**	(3,353)
Increase/(decrease) in trade payables	**250,059**	(586,757)
Increase/(decrease) in other payables and accruals	**331,781**	(473,002)
Increase/(decrease) in advances received from the pre-sale of properties under development	**367,741**	(360,302)
Cash used in operations	**(2,986,404)**	(1,456,647)

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39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 20 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2014, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

GROUP

	2014	2013
Within one year	**107,024**	96,361
In the second to fifth years, inclusive	**317,412**	285,128
After five years	**434,962**	475,837
	859,398	857,326

The rental income that is contingent upon business of lessee that was recognised in 2014 amounted to HK$9,330 thousand (2013: HK$14,744 thousand).

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from one to five years, and those for office equipment are for terms mainly ranging between two and five years.

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

GROUP

	2014	2013
Within one year	**4,161**	4,310
In the second to fifth years, inclusive	**2,089**	5,995
	6,250	10,305

COMPANY

	2014	2013
Within one year	**3,569**	3,522
In the second to fifth years, inclusive	**1,784**	5,283
	5,353	8,805

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40. COMMITMENTS AND CONTINGENCIES

(a) The Group and the Company had the following capital commitments and commitments in respect of property development for sale at the end of the reporting period:

	Group		Company	
	2014	2013	**2014**	2013
Contracted, but not provided for				
Properties held or under development for sale	**3,753,672**	1,348,489	–	–
Property, plant and equipment and leasehold land	**27,697**	24,753	–	–
	3,781,369	1,373,242	–	–
Authorised, but not contracted for				
Properties held or under development for sale	**805,955**	399,324	–	–
Property, plant and equipment and leasehold land	**87,515**	19,215	–	–
	893,470	418,539	–	–
	4,674,839	1,791,781	–	–

(b) The Group provides guarantees in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans are granted and end when the purchasers pledge related property certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB111 million (equivalent to HK$140 million) (2013: RMB484 million (equivalent to HK$615 million)) and these contracts were still effective as at the close of business on 31 December 2014.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the principal of each of the mortgage loans were normally below 70% of sales price of the properties at date of sales agreement, and therefore no provision has been made in connection with the guarantees.

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41. BUSINESS COMBINATIONS

On 19 March 2014 and 14 March 2014, the Group entered into transactions with a third party to acquire a 56% equity interest in Shenzhen Boromax and a 89% equity interest in Shenzhen Happy Cube Internet Technology Co., Ltd. ("Happy Cube") respectively. Due to various challenges in managing these newly acquired subsidiaries, the Group amiably negotiated and disposed of these entities to the original owner after several months (Note 42). These transactions do not have a material impact on the results of the Group.

The fair values of the identifiable assets and liabilities of Shenzhen Boromax as at the date of acquisition were as follows:

	19 March 2014
Property, plant and equipment (Note 17)	483
Other intangible assets (Note 16)	13,460
Trade receivables	5,405
Other receivables	11,706
Prepayments	1,786
Cash and bank balances	25,742
Inventories	6
Advances from customers	(975)
Trade payables	(1,710)
Other payables and accruals	(1,408)
Interest-bearing bank and other borrowings	(8,096)
Total identifiable net assets at fair value	46,399
Non-controlling interests	(20,622)
Goodwill on acquisition (Note 20)	14,729
Satisfied by cash	40,506

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

	2014
Cash consideration	40,506
Cash and bank balances acquired	(25,742)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	14,764

Had the combination taken place at the beginning of the year, there would be no significant impact on revenue or profit of the Group for the year.

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41. BUSINESS COMBINATIONS (continued)

The fair values of the identifiable assets and liabilities of Happy Cube as at the date of acquisition were as follows:

	14 March 2014
Property, plant and equipment (Note 17)	11
Other intangible assets (Note 16)	3,265
Other receivables	48
Cash and bank balances	10,167
Other payables and accruals	(2,108)
Total identifiable net assets at fair value	11,383
Non-controlling interests	(1,256)
Satisfied by cash	10,127

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

	2014
Cash consideration	10,127
Cash and bank balances acquired	(10,167)
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(40)

Had the combination taken place at the beginning of the year, there would be no significant impact on revenue or profit of the Group for the year.

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42. DISPOSAL OF SUBSIDIARIES

(a) On 18 September 2014, the Group disposed of its entire 56% equity interest in Shenzhen Boromax.

	18 September 2014
Net assets disposed of:	
Property, plant and equipment (Note 17)	4,644
Other intangible assets (Note 16)	13,703
Trade receivables	4,373
Other receivables	16,942
Prepayments	670
Cash and bank balances	335
Inventories	13,677
Advances from customers	(1,281)
Trade payables	(4,402)
Other payables and accruals	(3,927)
Interest-bearing bank and other borrowings	(1,535)
Goodwill (Note 20)	14,668
Non-controlling interests	(19,183)
	38,684
Gain on disposal of a subsidiary (Note 6)	1,654
	40,338
Satisfied by:	
Other receivables	20,169
Supply of inventories	20,169

50% of the consideration will be settled in cash over five years (See Note 34) and the remainder will be offset with liabilities arising from the purchase of intelligent household systems from Shenzhen Boromax for use in the Group's properties under development over five years (See Note 24).

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2014
Cash	–
Cash and bank balances disposed of	(335)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(335)

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42. DISPOSAL OF SUBSIDIARIES (continued)

(b) On 29 July 2014, the Group disposed of its entire 89% equity interest in Happy Cube.

	29 July 2014
Net assets disposed of:	
Property, plant and equipment (Note 17)	7
Other intangible assets (Note 16)	4,531
Other receivables	6,328
Cash and bank balances	488
Other payables and accruals	(52)
Non-controlling interests	(1,247)
	10,055
Gain on disposal of a subsidiary (Note 6)	8
Satisfied by cash	10,063

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

	2014
Cash consideration	10,063
Cash and bank balances disposed of	(488)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	9,575

43. RELATED PARTY TRANSACTIONS

GROUP

In addition to the related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

Significant related party transactions during the year:

i) Sales to and purchases from associates and the relevant balances

	2014	2013
Trade receivables from Broadband	313	314
Trade payables to New Technology	141	1,189

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43. RELATED PARTY TRANSACTIONS (continued)

GROUP (continued)

ii) Receivable due from a related party

	2014	2013
Receivable from CNTD Group for property management service	**634**	636

iii) Loan guarantee/security

A term loan of HK$220 million (entered into in 2012) is secured by a property in Hong Kong jointly owned by Mr. Shi Jian (Chairman) and Md. Si Xiao Dong (2013: HK$220 million).

A term loan of HK$3,204 million is guaranteed by SREI, Mr. Shi Jian and Md. Si Xiao Dong (2013: HK$1,272 million).

iv) Compensation to key management personnel of the Group

	2014	2013
Salaries and other short-term employee benefits	**23,085**	18,415

44. FINANCIAL INSTRUMENTS BY CATEGORY

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

GROUP

Financial assets	2014	2013
Loans and receivables		
– Other receivables	**406,864**	503,816
– Trade receivables	**47,356**	35,503
– Cash and bank balances	**2,108,997**	2,941,096
	2,563,217	3,480,415

Financial liabilities	2014	2013
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**19,594,172**	15,556,402
– Convertible bonds – host debts	**–**	8,332
– Trade payables	**2,135,637**	1,804,043
– Others	**666,627**	366,070
	22,396,436	17,734,847

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44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

COMPANY

Financial assets	**2014**	2013
Loans and receivables		
– Dividends receivable from subsidiaries	**2,473,852**	2,482,348
– Advances to subsidiaries	**1,305,438**	1,372,791
– Cash and bank balances	**58,486**	56,698
	3,837,776	3,911,837

Financial liabilities	**2014**	2013
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**1,607,443**	1,520,034
– Convertible bonds – host debts	**–**	8,332
– Others	**1,459**	12,332
	1,608,902	1,540,698

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 2.4).

The Group's financial assets mainly include cash and bank balances and receivables.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, convertible bonds and payables.

Except as indicated below, the fair values of the Group's and the Company's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

GROUP AND COMPANY

	2014		2013	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Convertible bonds – host debts	**–**	**–**	8,332	9,008

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

Fair value hierarchy

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

Assets and liabilities measured at fair value:

GROUP AND COMPANY

The Group and the Company did not have any financial asset or financial liability measured at fair value as at 31 December 2014 and 2013.

Liabilities for which fair value are disclosed:

GROUP AND COMPANY

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Convertible bonds – host debts	–	–	9,008	9,008

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

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

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and other borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayment of the borrowings are disclosed in Note 30.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates of the major currencies in which the Group's borrowings are denominated, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). The Group's and the Company's equity is not affected, except for the consequential effect on retained profits (a component of the Group's and the Company's equity) by the changes in profit before tax.

	Group		Company	
	2014	2013	**2014**	2013
	Impact on profit before tax	Impact on profit before tax	**Impact on profit before tax**	Impact on profit before tax
Changes in variables – RMB interest rate				
+ 50 basis points	**(89,934)**	(70,184)	**–**	–
–50 basis points	**89,934**	70,184	**–**	–
Changes in variables – HK$ interest rate				
+ 50 basis points	**(5,167)**	(4,731)	**(5,167)**	(4,731)
–50 basis points	**5,167**	4,731	**5,167**	4,731
Changes in variables – US$ interest rate				
+ 50 basis points	**(2,870)**	(2,869)	**(2,870)**	(2,869)
–50 basis points	**2,870**	2,869	**2,870**	2,869

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks, convertible bonds and bank borrowings, which are mainly denominated in United States dollars ("US$"), Hong Kong dollars ("HK$") and Australian dollars ("AUD").

Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, the HK$ and the AUD exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's and the Company's equity is not affected, except for the consequential effect on retained profits (a component of the Group's and the Company's equity) by the impact on profit before tax is disclosed as below.

	Group		Company	
	2014	2013	**2014**	2013
	Impact on profit before tax	Impact on profit before tax	**Impact on profit before tax**	Impact on profit before tax
Changes in exchange rate of US$ against Renminbi				
+ 5%	**(27,897)**	(28,352)	**(28,089)**	(28,652)
–5%	**27,897**	28,352	**28,089**	28,652
Changes in exchange rate of HK$ against Renminbi				
+ 5%	**(49,836)**	(44,513)	**(49,837)**	(44,516)
–5%	**49,836**	44,513	**49,837**	44,516
Changes in exchange rate of AUD against Renminbi				
+ 5%	**477**	3,698	**477**	–
–5%	**(477)**	(3,698)	**(477)**	–

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk mainly arises from cash at banks, trade receivables and other receivables, the balances of which represent the maximum credit risk exposure of the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis other than the significant receivables in Note 25. There is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2014.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

	Group		**Company**	
	2014	2013	**2014**	2013
Financial assets				
Loans and receivables				
– Dividends receivable from subsidiaries	**–**	–	**2,473,852**	2,482,348
– Advances to subsidiaries	**–**	–	**1,305,438**	1,372,791
– Other receivables	**406,864**	503,816	**–**	–
– Trade receivables	**47,356**	35,503	**–**	–
– Cash at banks	**2,106,374**	2,938,377	**58,467**	56,670
	2,560,594	3,477,696	**3,837,757**	3,911,809

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to monitor the Group's future state of liquidity as estimated from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest development.

Other than properties developed for sale, the Group also develops and holds properties for the long-term, such as hotel properties and investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which bring liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase equity through the issuance of convertible bonds as well as new shares.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seeks financing from overseas markets through close cooperation with several world-wide banks.

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

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

GROUP

	2014					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**34,820**	**535,369**	**8,154,578**	**13,749,965**	**1,073,688**	**23,548,420**
Trade payables	**248,357**	**8,666**	**1,492,514**	**386,100**	**–**	**2,135,637**
Others	**30,002**	**23,411**	**133,922**	**454,002**	**25,290**	**666,627**
	313,179	**567,446**	**9,781,014**	**14,590,067**	**1,098,978**	**26,350,684**

	2013					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	30,115	1,073,547	5,197,015	11,753,615	1,546,422	19,600,714
Convertible bonds	–	267	9,171	–	–	9,438
Trade payables	233,651	140,623	1,168,910	260,859	–	1,804,043
Others	15,933	70,693	149,303	111,626	6,450	354,005
	279,699	1,285,130	6,524,399	12,126,100	1,552,872	21,768,200

COMPANY

	2014					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**–**	**46,501**	**1,213,394**	**243,362**	**193,403**	**1,696,660**
Others	**1,069**	**390**	**–**	**–**	**–**	**1,459**
	1,069	**46,891**	**1,213,394**	**243,362**	**193,403**	**1,698,119**

	2013					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	5,287	1,202,972	230,049	109,663	1,547,971
Convertible bonds	–	267	9,171	–	–	9,438
Others	1,070	10,387	–	–	–	11,457
	1,070	15,941	1,212,143	230,049	109,663	1,568,866

Notes to Financial Statements

31 December 2014 (Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Management has assessed that the fair values of trade payables and others approximate to their carrying amounts largely due to the short term maturities of these instruments.

Capital management

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

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

As the Group is mainly engaged in the development of properties, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the capital plus net debt.

Net debt includes interest-bearing bank and other borrowings and the liability component (host debts) of convertible bonds and less cash and bank balances. Capital includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios are calculated as follows:

	2014	2013
Interest-bearing bank and other borrowings (Note 30)	**19,594,172**	15,556,402
Convertible bonds – host debts (Note 33)	**–**	8,332
Less: Cash and bank balances (Note 27)	**(2,108,997)**	(2,941,096)
Net debt	**17,485,175**	12,623,638
Equity attributable to owners of the parent	**9,036,731**	9,230,600
Non-controlling interests	**566,804**	322,755
Capital	**9,603,535**	9,553,355
Capital and net debt	**27,088,710**	22,176,993
Gearing ratio	**65%**	57%

47. APPROVAL OF THE FINANCIAL STATEMENTS

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