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Tian Shan Development (Holding) Limited
天山發展(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2118

2010

Interim Report



CORPORATE INFORMATION

Directors

Executive Directors

Mr. WU Zhen Shan (*Chairman*)
Mr. WU Zhen Ling
Mr. ZHANG Zhen Hai
Mr. WU Zhen He

Independent Non-Executive Directors

Mr. TIAN Chong Hou
Mr. WANG Ping
Mr. CHEUNG Ying Kwan

Company Secretary

Mr. CHEUNG Siu Yiu, FCPA

Authorised Representatives

Mr. WU Zhen Shan
Mr. CHEUNG Siu Yiu

Audit Committee

Mr. CHEUNG Ying Kwan (*Chairman*)
Mr. TIAN Chong Hou
Mr. WANG Ping

Remuneration Committee

Mr. WU Zhen Shan (*Chairman*)
Mr. WU Zhen Ling
Mr. TIAN Chong Hou
Mr. WANG Ping
Mr. CHEUNG Ying Kwan

Nomination Committee

Mr. WU Zhen Shan (*Chairman*)
Mr. WU Zhen Ling
Mr. TIAN Chong Hou
Mr. WANG Ping
Mr. CHEUNG Ying Kwan

Company Website

www.tian-shan.com

Head Office and Principal Place of Business in China

No. 109 Tianshan Avenue
Shijiazhuang Hi-Tech Industry
Development Zone
Shijiazhuang, Hebei Province
China

Principal Place of Business in Hong Kong

Unit 3, 7th Floor, Fairmont House
No. 8 Cotton Tree Drive
Central
Hong Kong

Registered Office in the Cayman Islands

Clifton House, 75 Fort Street
PO Box 1350, Grand Cayman
KY1-1108
Cayman Islands

Auditors

KPMG
Certified Public Accountants

Compliance Advisor

China Everbright Capital Limited

Principal Share Register and Transfer Office in the Cayman Islands

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350, Grand Cayman
KY1-1108
Cayman Islands

Hong Kong Branch Share Register and Transfer Office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

The shares of Tian Shan Development (Holding) Limited (the “Company”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 July 2010.

The board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009. The unaudited interim financial report set out on pages 13 to 33 was reviewed by the audit committee and the independent auditors of the Company.

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	Change %
Turnover	537,298	85,167	530.9
Gross profit	142,235	27,343	420.2
Profit/(loss) for the period	44,207	(7,851)	N/A
Basic earnings/(loss) per share (RMB cents)	6.43	(1.14)	N/A
Delivered gross floor area (“GFA”)	105,782 sq.m.	28,115 sq.m.	276.2

BUSINESS REVIEW AND PROSPECTS

As at 30 June 2010, the Group had 11 property projects under development, namely *Tian Shan Science and Technology Industrial Park*, *Ningjin Tian Shan Wonderful Waterside View*, *Chengde Tian Shan Wonderful Waters View*, *Sanhe Tian Shan International Enterprise Base*, *Contemporary Noble Territory*, *Tianjin Tian Shan Wonderful Waterside View (Phase I)*, *New Great Earldom*, *Tian Shan Long Hu Wan (Phase I)*, *Tian Shan Long Hu Wan (Phase II)*, *Tian Shan Long Hu Wan (Phase III)* and *Weihai Tian Shan Waterside View (Phase I)*, with total gross floor area of approximately 2.1 million square meters (“sq.m.”).

The Group's brand "*Tian Shan*" is well recognised by its customers. The Group's business objective is to provide a comfortable living environment to its customers. Following the global economic recovery and the strong economic growth in the Bohai Economic Rim, during the current period, the Group recorded a high turnover of RMB537.3 million and delivered GFA of approximately 105,782 sq.m..

With the listing of the shares of the Company on the Stock Exchange on 15 July 2010 ("IPO") and the receipt of proceeds, net of listing expenses, of approximately HK\$328.7 million (equivalent approximately RMB289.2 million) from the allotment and issuance of 250,000,000 shares of the Company, the Company had utilised RMB236.6 million for the full redemption and payment of the outstanding principal amount of US\$33.75 million and accrued interests of the US\$90 million senior floating rate notes (the "Senior Notes") on 30 July 2010. For the remaining listing proceeds of approximately RMB52.6 million, the Company will apply to the *Tianjin Tian Shan Wonderful Waterside View*, *Weihai Tian Shan Waterside View* and *Weihai Tian Shan International Enterprise Base* in the near future.

With the successful listing of the Company's shares on the Stock Exchange, the Group has strengthened its business reputation and will continue its successful track record in the development of quality residential and industrial property projects in the Bohai Economic Rim.

FINANCIAL REVIEW

The Group's turnover increased by approximately 530.9% to approximately RMB537.3 million from RMB85.2 million as compared with the same period last year. This was primarily due to the increased number of property projects completed and delivered to the customers. During the period, the Group's turnover are principally derived from the sales and delivery of residential and industrial property projects, namely *Contemporary Noble Territory*, *Tianjin Tian Shan Wonderful Waterside View (Phase I)* and *Tian Shan Science and Technology Industrial Park*. The increase in turnover was mainly attributable to more GFA delivered during the period under review while there was only small GFA delivered in the first half of year 2009. In addition, the average selling price per sq. m. for the property projects was generally higher than that of the first half of year 2009.

The cost of sales increased by approximately 583.2% to approximately RMB395.1 million from RMB57.8 million as compared with the six month period ended 30 June 2009. The increase was mainly commensurate with the increase in the turnover during the period under review.

As a result of the foregoing, the amount of the gross profit increased significantly by 420.2% to approximately RMB142.2 million from RMB27.3 million for the six months period ended 30 June 2009. While the gross profit margin for the current period was slightly decrease to approximately 26.5% as compared with 32.1% for the preceding period. The decrease in gross profit margin was mainly due to certain properties of *Contemporary Noble Territory* were pre-sold during 2008 and the first half of 2009 at relatively lower prices which were delivered and recognised as revenue in the first half of 2010.

The Group's other income increased significantly to approximately RMB6.1 million from RMB0.7 million. The increase was mainly due to a PRC local government subsidy of RMB5.0 million was received during the current period while no such subsidy was received in the corresponding period last year.

The Group's selling and marketing expenses increased by approximately 98.3% to RMB25.3 million from RMB12.7 million. The increase was primarily due to the increase in sales commission and advertising and promotion expenses. The increase in sales commission was in line with the increased in recognised sales revenue during the period. In addition, more advertising and promotion activities were carried out during the current period mainly for *Contemporary Noble Territory* and *Weihai Tian Shan Waterside View*.

The Group's administrative expenses increased by approximately 85.1% to RMB37.0 million from RMB20.0 million. The increase was primarily due to certain listing related expenses of RMB7.0 million and RMB2.0 million donation made for the Qing Hai earthquake in April 2010. Other than the foregoing, there was increase in staff cost and the general administrative expenses because of the increase in number of new property projects commenced or to be commenced in the near future, namely *Weihai Tian Shan Waterside View*, *Weihai Tian Shan Contemporary Noble Territory*, and *Weihai Tian Shan International Enterprise Base*.

The Group's income tax expense increased significantly to approximately RMB42.2 million from RMB3.4 million. The increase was primarily due to the increase in the Group's turnover during the current period under the authorised tax valuation method.

As a result of the above, the Group recorded a net profit of approximately RMB44.2 million as compared with the preceding period of net loss of approximately RMB7.9 million.

Liquidity and Financial Resources

As at 30 June 2010, the Group had cash and cash equivalents of approximately RMB247.9 million (31 December 2009: RMB178.4 million). The cash and cash equivalent as primarily held in Renminbi with small amounts in Hong Kong dollars and United States dollars.

As at 30 June 2010, the Group had total bank loans and the Senior Notes in aggregate of approximately RMB779.0 million (31 December 2009: RMB739.7 million) and total equity attributable to shareholder of RMB613.2 million (31 December 2009: RMB568.0 million). Accordingly, the debt-to-equity ratio as of 30 June 2010 was 1.27 (31 December 2009: 1.30).

Employees' Remuneration and Benefits

As at 30 June 2010, the Group employed approximately 803 employees (31 December 2009: 462 employees). The Group offered competitive salary package, social insurance, pension scheme to its employees. A share option scheme has also been adopted for employees of the Group.

The Group will periodically review and adjust the salary level of its employees to ensure the offered salary packages are competitive. In addition, more training courses and seminars, especially topics on listing related rules and regulations, will be conducted for the employees at different levels to further their knowledge in this respect.

Foreign Exchange and Currency Risk

As at 30 June 2010, other than the Senior Notes (which was partially converted into the Company's shares upon IPO and remaining balance was fully repaid on 30 July 2010), the Group's businesses are principally conducted in Renminbi, therefore, the Group does not expose to significant foreign currency exchange risks and the Group does not employ any financial instruments for hedging purposes.

In addition, Renminbi is not a freely convertible currency and the PRC government may at its discretion restricts access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands of the Group.

Substantial Acquisition and Disposal

The Group has not participated in any substantial acquisition or disposal during the period under review.

Capital Expenditure

During the period under review, the Group incurred capital expenditure in the amount of approximately RMB331.9 million comprising primarily land and development costs of our property projects.

Charge on Assets

As of 30 June 2010, the Group had restricted cash of RMB84.8 million (31 December 2009: RMB60.7 million) deposited with certain banks as guarantee deposits against certain mortgage loan facilities granted by the banks to purchasers of the Group's properties. In addition, the Group had inventories of approximately RMB1,499.0 million (31 December 2009: RMB1,301.6 million) were secured against the bank loans of the Group. Furthermore, the Senior Notes were secured by the entire equity interest in Tian Shan International Investment Company Limited (a wholly-owned subsidiary of the Company).

Contingent Liabilities

Save for the guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties of RMB1,863.8 million (31 December 2009: RMB1,836.4 million), the Group had no material contingent liability as at 30 June 2010.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of conduct regarding directors' securities transactions.

The Company confirms that, having made specific enquiry of all the directors of the Company (the "Directors"), the Directors have complied with the required standards as set out in the Model Code since the Company's listing on 15 July 2010 up to the date of this report.

CORPORATE GOVERNANCE

Since the Company was only listed on the Stock Exchange on 15 July 2010, the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Listing Rules was not applicable to the Company for the period under review.

However, none of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors was not in compliance with the CG Code during the period from 15 July 2010 up to the date of this report.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Tian Chong Hou, Mr. Wang Ping and Mr. Cheung Ying Kwan. The principal duties of the audit committee include the review of the Company's financial reporting procedure, internal controls and financial results of the Group. The unaudited condensed consolidated interim financial report have been reviewed by the audit committee.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The Company was listed on the Stock Exchange on 15 July 2010. No disclosure of interests or short positions of any directors and/or chief executives of the Company in any shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (“SFO”)) were made to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO as of 30 June 2010.

Upon listing on 15 July 2010, the interests and short positions of the directors and/or chief executives of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

1. Interests in the Company

(a) Shares

Name of Director	Nature of interest	No. of shares	Percentage of issued share capital of the Company
WU Zhen Shan	Interest of a controlled corporation	687,560,000 (note 1) Long Position	68.76%
WU Zhen Ling	Interest of a controlled corporation	687,560,000 (note 1) Long Position	68.76%
ZHANG Zhen Hai	Interest of a controlled corporation	687,560,000 (note 1) Long Position	68.76%
WU Zhen He	Interest of a controlled corporation	687,560,000 (note 1) Long Position	68.76%

Note 1: The shares are beneficially held by Neway Enterprises Limited (“Neway Enterprises”). Neway Enterprises is a company incorporated in the British Virgin Islands and is owned as to 25% by WU Zhen Shan, 25% by WU Zhen Ling, 25% by ZHANG Zhen Hai and 25% by WU Zhen He and all of them being directors of Neway Enterprises. Since these four Directors exercise or control the exercise or entire voting right at general meetings of Neway Enterprises, each of the them are deemed to be interested in the shares held by Neway Enterprises by virtue of Part XV of the SFO.

(b) Options

Name of Director	Nature of Interest	Number of shares subject to options granted	Approximate percentage of shareholding	Date of grant	Exercise period	Exercise price per share (HK\$)
WU Zhen Shan	Interest of spouse	191,000 (note 1)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70
WU Zhen Ling	Interest of spouse	191,000 (note 2)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70
ZHANG Zhen Hai	Interest of spouse	191,000 (note 3)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70
WU Zhen He	Interest of spouse	191,000 (note 4)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70

Notes:

1. The options are granted to XU Lan Ying, the spouse of WU Zhen Shan, under the pre-IPO share option scheme adopted by the Company on 16 June 2010 (the "Pre-IPO Share Option Scheme").
2. The options are granted to FAN Yi Mei, the spouse of WU Zhen Ling, under the Pre-IPO Share Option Scheme.
3. The options are granted to WU Lan Zhi, the spouse of ZHANG Zhen Hai, under the Pre-IPO Share Option Scheme.
4. The options are granted to GU Jing Gai, the spouse of WU Zhen He, under the Pre-IPO Share Option Scheme.

2. Interest in associated corporations

Name of Director	Name of associated corporation	Number of shares	Percentage of shareholding
WU Zhen Shan	Neway Enterprises	one	25%
WU Zhen Ling	Neway Enterprises	one	25%
ZHANG Zhen Hai	Neway Enterprises	one	25%
WU Zhen He	Neway Enterprises	one	25%

Save as disclosed above, as at 15 July 2010, 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 would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

The Company was listed on the Stock Exchange on 15 July 2010. No disclosure of interests or short positions of any substantial shareholders and other persons of the Company in any shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO as of 30 June 2010.

Upon listing on 15 July 2010, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder of the Company	Nature of interest	Number of shares held	Percentage of the Company's issued share capital
Neway Enterprises	Beneficial	687,560,000	68.76%
Hebei International Investments Limited ("Hebei International")	Beneficial	99,998,000 (note i)	9.99%
Hebei Province Construction & Investment Group Co., Ltd. ("Hebei Province Construction")	Interest of a controlled corporation	99,998,000 (note i)	9.99%

Note i: Hebei International is wholly-owned by Hebei Province Construction. By virtue of the SFO, Hebei Province Construction was deemed to be interested in the 99,998,000 shares of the Company held by Hebei International.

Save as disclosed above, as at 15 July 2010, no person, other than the directors of the Company, whose interests are set out in the paragraph headed “Interests and short positions of the director, and the chief executives in shares, underlying shares, and debentures of the Company and its associated corporations” above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

On 16 June 2010, the Company adopted the Pre-IPO Share Option Scheme and on the same date, options to subscribe for an aggregate of 6,000,000 shares of the Company have been granted. The options can be exercised for a period of 10 years from the date of the grant. Further details of the terms of the Pre-IPO Share Option Scheme are disclosed in the prospectus of the Company dated 30 June 2010.

The following table discloses movements in the Company's options granted under the Pre-IPO Share Option Scheme during the period:

Name or category of participant	At 1 January 2010	Grant during the period	Exercised during the period	Forfeited during the period	At 30 June 2010	Date of grant	Exercise period of the share options (note f)	Exercise price of share options (HK\$ per share)
Connected persons								
WU Lan Zhi (note a)	—	191,000	—	—	191,000	16.06.2010	16.01. 2011 to 15.06.2020	0.70
XU Lan Ying (note b)	—	191,000	—	—	191,000	16.06.2010	16.01. 2011 to 15.06.2020	0.70
FAN Yi Mei (note c)	—	191,000	—	—	191,000	16.06.2010	16.01. 2011 to 15.06.2020	0.70
GU Jing Gai (note d)	—	191,000	—	—	191,000	16.06.2010	16.01. 2011 to 15.06.2020	0.70
WU Lan Ping (note e)	—	191,000	—	—	191,000	16.06.2010	16.01. 2011 to 15.06.2020	0.70
	—	955,000	—	—	955,000			
Other employees and grantees								
In aggregate	—	5,045,000	—	—	5,045,000	16.06.2010	16.01. 2011 to 15.06.2020	0.70
Total	—	6,000,000	—	—	6,000,000			

Notes:

- (a) WU Lan Zhi is the elder sister of WU Zhen Shan, WU Zhen Ling and WU Zhen Hai and the spouse of ZHANG Zhen Hai. The interest was also disclosed as an interest of ZHANG Zhen Hai in the paragraph headed “Interests and short positions of the directors and the chief executives in shares, underlying shares, and debentures of the Company and its associated corporations” above.
- (b) XU Lan Ying is the spouse of WU Zhen Shan. The interest was also disclosed as an interest of WU Zhen Shan in the paragraph headed “Interests and short positions of the directors and the chief executives in shares, underlying shares, and debentures of the Company and its associated corporations” above.
- (c) FAN Yi Mei is the spouse of WU Zhen Ling. The interest was also disclosed as an interest of WU Zhen Ling in the paragraph headed “Interests and short positions of the directors and the chief executives in shares, underlying shares, and debentures of the Company and its associated corporations” above.
- (d) GU Jing Gai is the spouse of WU Zhen He. The interest was also disclosed as an interest of WU Zhen He in the paragraph headed “Interests and short positions of the directors and the chief executives in shares, underlying shares, and debentures of the Company and its associated corporations” above.
- (e) WU Lan Ping is the younger sister of WU Zhen Shan, WU Zhen He and WU Zhen Hai.
- (f) Each grantee is entitled to exercise up to 10% of the share options granted to him/her each year since the grant date. Options which become exercisable in the relevant year are not exercised can be exercised in any of the subsequent years in whole or in part.

SHARE OPTION SCHEME

A share option scheme (the “Share Option Scheme”) was conditionally approved by resolutions in writing of the then sole shareholder of the Company on 16 June 2010. Since the Share Option Scheme has become effective upon the Company’s listing on 15 July 2010, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the period under review and there were no outstanding share options under the Share Option Scheme as at 30 June 2010.

By order of the Board
Tian Shan Development (Holding) Limited
Wu Zhen Shan
Chairman

Shijiazhuang, Hebei Province, PRC
30 August 2010

UNAUDITED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2010

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Turnover	3	537,298	85,167
Cost of sales		(395,063)	(57,824)
Gross profit		142,235	27,343
Other income		6,122	675
Selling and marketing expenses		(25,261)	(12,737)
Administrative expenses		(36,980)	(19,976)
Profit/(loss) from operations		86,116	(4,695)
Finance income		393	273
Finance expenses		(100)	(18)
Net financing income	4(a)	293	255
Profit/(loss) before taxation	4	86,409	(4,440)
Income tax	5	(42,202)	(3,411)
Profit/(loss) for the period		44,207	(7,851)
Basic earnings/(loss) per share (RMB cents)	7	6.43	(1.14)

The notes on pages 19 to 33 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*for the six months ended 30 June 2010**(Expressed in Renminbi)*

	Note	Six months ended 30 June	
		2010 RMB'000	2009 RMB'000
Profit/(loss) for the period		44,207	(7,851)
Other comprehensive income for the period	8		
Exchange differences on translation of financial statements of overseas subsidiaries		967	637
Total comprehensive income for the period		45,174	(7,214)

The notes on pages 19 to 33 form part of this interim financial report.

UNAUDITED CONSOLIDATED BALANCE SHEET*at 30 June 2010**(Expressed in Renminbi)*

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	18,199	19,928
Deferred tax assets		28,468	30,591
		46,667	50,519
Current assets			
Inventories	10	2,021,588	2,085,709
Trade and other receivables	11	755,526	301,445
Restricted cash	12	84,778	60,700
Cash and cash equivalents		247,928	178,376
		3,109,820	2,626,230
TOTAL ASSETS		3,156,487	2,676,749
EQUITY			
Share capital	13	160	160
Reserves		613,043	567,869
SHAREHOLDER'S EQUITY		613,203	568,029
LIABILITIES			
Non-current liabilities			
Bank loans — secured	14	172,000	163,000
Deferred tax liabilities		19,400	19,400
		191,400	182,400

UNAUDITED CONSOLIDATED BALANCE SHEET *(Continued)**at 30 June 2010**(Expressed in Renminbi)*

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Current liabilities			
Bank loans — secured	14	298,373	267,937
Senior Notes	15	308,672	308,802
Trade and other payables	16	1,686,926	1,283,383
Current taxation		57,913	66,198
		2,351,884	1,926,320
TOTAL LIABILITIES		2,543,284	2,108,720
TOTAL EQUITY AND LIABILITIES		3,156,487	2,676,749
Net current assets		757,936	699,910
Total assets less current liabilities		804,603	750,429

The notes on pages 19 to 33 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2010

(Expressed in Renminbi)

	Attributable to equity shareholder of the Group						
	Share capital RMB'000 (note 13)	Exchange reserve RMB'000	Other capital reserve RMB'000	PRC statutory reserve RMB'000	Warrant reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009	160	47,380	110,070	82,772	—	197,623	438,005
Total comprehensive income	—	637	—	—	—	(7,851)	(7,214)
At 30 June 2009	160	48,017	110,070	82,772	—	189,772	430,791
At 1 July 2009	160	48,017	110,070	82,772	—	189,772	430,791
Transfer to statutory reserve	—	—	—	13,184	—	(13,184)	—
Total comprehensive income	—	(651)	—	—	—	137,889	137,238
At 31 December 2009	160	47,366	110,070	95,956	—	314,477	568,029
At 1 January 2010	160	47,366	110,070	95,956	—	314,477	568,029
Transfer to statutory reserve	—	—	—	9,147	—	(9,147)	—
Total comprehensive income	—	967	—	—	—	44,207	45,174
At 30 June 2010	160	48,333	110,070	105,103	—	349,537	613,203

The notes on pages 19 to 33 form part of this interim financial report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30 June 2010**(Expressed in Renminbi)*

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Cash generated from operations	134,006	202,090
Tax paid		
— PRC tax paid	(48,364)	(26,649)
Net cash generated from operating activities	85,642	175,441
Net cash used in investing activities	(172)	(4,273)
Net cash used in financing activities	(15,717)	(137,684)
Net increase in cash and cash equivalents	69,753	33,484
Cash and cash equivalents at 1 January	178,376	154,086
Effect of foreign exchange rate changes	(201)	(29)
Cash and cash equivalents at 30 June	247,928	187,541

The notes on pages 19 to 33 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*for the six months ended 30 June 2010
(Expressed in Renminbi)*

1 CORPORATE INFORMATION AND BASIS OF PREPARATION

(a) Corporate information

Tian Shan Development (Holding) Limited (the “Company”) was incorporated in the Cayman Islands on 10 June 2005 and registered as an exempted company with limited liability under the Companies Law (2009 Revision) of the Cayman Islands. Its principal place of business is at Unit 3, 7th Floor, Fairmont House, No. 8 Cotton Tree Drive, Hong Kong and its registered office is at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company and its subsidiaries (the “Group”) are principally engaged in property development in the People’s Republic of China (the “PRC”). The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 July 2010.

(b) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issued on 30 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the consolidated financial statements for the year ended 31 December 2009 as reported in the accountants’ report included in the prospectus of the Company dated 30 June 2010 (the “Prospectus”) in relation to global offering of the Company’s shares.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date dates. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in conformity with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the board of directors is included on page 34.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION *(Continued)*

(b) Basis of preparation *(Continued)*

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements and the consolidated financial statements for that financial year are derived from the accountants' report in the Prospectus.

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. The adoption of them does not have significant impact to the Group's financial statements for current and prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on property development. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, *Operating Segments*. In this regard, no segment information is presented in the interim financial report.

No geographic information is shown as the turnover and profit from operation of the Group is derived from activities in the PRC.

3 TURNOVER

The principal activity of the Group is property development. Turnover is analysed as follows:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Property sales	527,534	52,624
Construction contracts	9,764	32,543
	537,298	85,167

Turnover from construction contracts represents income arising from development of industrial properties in accordance with designs provided by customers.

4 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
(a) Net financing income:		
Interest income	(387)	(273)
Exchange gain	(6)	—
Finance income	(393)	(273)
Interest expense and other borrowing costs	28,611	66,328
Less: Interest and borrowing costs capitalised	(28,511)	(66,310)
Finance expenses	100	18
Net financing income	(293)	(255)
(b) Staff costs:		
Wages, salaries and other staff costs	21,208	13,204
Contributions to retirement benefits scheme	330	297
	21,538	13,501
(c) Other items:		
Depreciation and amortisation	2,174	1,928

5 INCOME TAX

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Current tax		
Provision for PRC Corporate Income Tax	20,365	15,139
Land Appreciation Tax	19,714	4,028
	40,079	19,167
Deferred tax		
Pre-sale of properties	2,123	(15,756)
Total income tax in the consolidated income statement	42,202	3,411

(a) Pursuant to the rules and regulations of the British Virgin Islands (the "BVI") and the Cayman Islands, the Group is not subject to any income tax in the BVI and the Cayman Islands.

(b) No Hong Kong Profits Tax has been provided for as the Group's Hong Kong operations sustained losses for taxation purposes.

(c) **PRC Corporate Income Tax ("CIT")**

Certain subsidiaries of the Group were subject to CIT at deemed profit which represents 13% (2009: 13%) of their revenue in accordance with authorised tax valuation method (核定徵收) approved by local tax bureau pursuant to the applicable PRC tax regulations. The tax rate was 25% (2009: 25%) on the deemed profit.

For other PRC subsidiaries of the Group, which were subject to the actual taxation method (查賬徵收), CIT were charged at a rate of 25% (2009: 25%) on the estimated assessable profit for the period.

5 INCOME TAX *(Continued)*

(d) PRC Land Appreciation Tax ("LAT")

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例) effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例實施細則) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties (普通標準住宅) if their appreciation values do not exceed 20% of the sum of the total deductible items.

In addition, certain subsidiaries of the Group were subject to LAT which is calculated based on 1% to 3% (2009: 1% to 3%) of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

(e) Withholding tax

A withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside PRC for earnings generated beginning on 1 January 2008. During the period, the PRC-resident enterprise of the Group has not declared dividend and no withholding tax on the dividend was charged to the consolidated income statement. In addition, the PRC-resident enterprise of the Group has no intention to declare dividend from its profit earned during the period. In this regard, no deferred tax in relation to withholding tax were recognised.

6 DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB Nil).

7 BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholder of the Company of RMB44,207,000 (six months ended 30 June 2009: loss of RMB7,851,000) and weighted average number of ordinary shares outstanding of 687,560,000 (2009: 687,560,000) ordinary shares, including 1,560,001 (2009: 1,560,001) ordinary shares in issue at the beginning of the period, 685,999,999 (2009: 685,999,999) ordinary shares issued pursuant to the capitalisation issue as discussed in note 13(b) as if the shares were outstanding throughout the entire six months ended 30 June 2010 and 2009.

The Company's Warrants as at 30 June 2010 and 2009 and pre-IPO share options as at 30 June 2010 do not give rise to any dilution effect to the earnings/(loss) per share.

8 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Exchange differences on translation of financial statements of overseas subsidiaries	967	637

There is no tax effect relating to the above component of other comprehensive income.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group's additions in property, plant and equipment amounted to RMB984,000 (six months ended 30 June 2009: RMB4,890,000). Items of property, plant and equipment with a net book value of RMB539,000 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: RMB126,000), resulting in a gain on disposal of RMB238,000 (six months ended 30 June 2009: RMB104,000).

10 INVENTORIES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Construction materials	1	65
Properties held for future development for sale	285,621	342,536
Properties under development for sale	1,586,077	1,583,372
Completed properties held for sale	149,889	159,736
	2,021,587	2,085,644
	2,021,588	2,085,709

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivables (note (a))	30,810	24,432
Deposits, prepayments and other receivables (note (b))	721,683	245,239
Amounts due from related parties	—	27,574
Gross amount due from customers for contract work	3,033	4,200
	755,526	301,445

11 TRADE AND OTHER RECEIVABLES *(Continued)*

- (a) The ageing analysis of trade receivables, all of which are neither individually nor collectively considered to be impaired, are as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Current or less than 1 month overdue	30,810	23,961
3 months to 1 year overdue	—	471
	30,810	24,432

The trade receivables represented the amount due from the purchasers of the Group's properties. In most cases, the Group receives full payments from properties purchasers by way of initial payment and their mortgage loans from banks. For certain industrial properties, the Group allows certain purchasers, after assessment of their credit information, to pay the purchase price by installments within a maximum period of two years.

- (b) Included in deposits, prepayments and other receivables as at 30 June 2010 were prepayment for leasehold land assets of RMB593,572,000 (31 December 2009: RMB158,049,000).

12 RESTRICTED CASH

Restricted cash are deposits with certain banks as guarantee deposits against the mortgage loan facilities granted by the banks to purchasers of the Group's properties.

13 SHARE CAPITAL

- (a) The details of the authorised and issued share capital are set out as follows:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
<i>Authorised:</i>		
10,000,000,000 (2009: 3,800,000) ordinary shares of HK\$0.1 each	1,000,000	380
<i>Issued and fully paid:</i>		
1,560,001 ordinary shares of HK\$0.1 each	156	156
RMB equivalent (RMB'000)	160	160

13 SHARE CAPITAL *(Continued)*

- (b) Pursuant to the resolution in writing of the sole shareholder of the Company passed on 16 June 2010, the authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of an additional 9,996,200,000 ordinary shares of HK\$0.1 each. In addition, 685,999,999 ordinary shares of HK\$0.1 each were issued at par value on 15 July 2010 to the sole shareholder of the Company by way of capitalisation of HK\$68,599,999.9 from the Company's share premium account.
- (c) On 15 July 2010, upon the listing of Company's shares on the Stock Exchange, 62,440,000 ordinary shares were issued to the holders of Senior Notes of the Company upon the mandatory conversion of part of the Senior Notes in accordance with the terms of Senior Notes as set out in note 15(d).

(d) Pre-IPO share options

On 16 June 2010, the Company conditionally granted certain pre-IPO share options to connected persons, consultants, executives and officers of the Group and related companies. The exercise of these share options would entitle these grantees to subscribe for an aggregate of 6,000,000 shares of the Company. The exercise price per share is 50% of the price of initial public offering ("IPO") of shares of the Company. Each option granted under the pre-IPO option scheme has a vesting period of one to ten years, commencing from six months from the date of IPO and the options are exercisable until 15 June 2020.

The fair value of each share option granted during the period estimated at the date of grant using binomial model was HK\$0.96. The key assumptions used are as follows:

Share price	HK\$1.4
Exercise price	HK\$0.7
Expected volatility	62.7%
Option life	10 years
Expected dividends	—
Risk-free interest rate	2.4%

14 BANK LOANS — SECURED

(a) At 30 June 2010, bank loans were repayable as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within one year or on demand	298,373	267,937
After one year but within two years	99,000	90,000
After two year but within five years	73,000	73,000
	172,000	163,000
	470,373	430,937

(b) At 30 June 2010, assets of the Group secured against bank loans are analysed as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Properties held for future development for sale	140,463	60,539
Properties under development for sale	1,214,905	1,200,716
Completed properties held for sale	143,637	40,376
	1,499,005	1,301,631

15 SENIOR NOTES/WARRANTS — THE GROUP AND THE COMPANY

(a) **Senior Notes/Warrants issued on 9 October 2007**

On 9 October 2007, the Company issued US\$90,000,000 Senior Floating Rate Notes Due 2012 (the “Senior Notes”) and 98,901,100 warrants (the “Warrants”) for a principal amount totalling US\$90,000,000. The Senior Notes were interest-bearing at six-month LIBOR plus 7% per annum and payable semi-annually in arrears. The Senior Notes were secured by the entire equity interest in Tian Shan International Investment Company Limited, and the Company’s equity interest held by Neway Enterprises Limited.

15 SENIOR NOTES/WARRANTS — THE GROUP AND THE COMPANY *(Continued)*

(a) Senior Notes/Warrants issued on 9 October 2007 *(Continued)*

Detachable from Senior Notes, each Warrant may be exercised from the date of issue up to 8 October 2012 at an initial exercise price of HK\$0.56 per share, assuming 1,000,000,000 shares are in issue, subject to anti-dilutive adjustment, to subscribe shares of the Company.

Conditioned in the indenture in relation to the Senior Notes, the Company was granted a redemption option such that at any time on or after 8 October 2010, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to the percentage ranging from 108% of the principal amount, plus accrued and unpaid interest, if any, up to and including the redemption date. If the Company has not completed an IPO by 8 October 2008, or de-listing occurs at any time, the Company may be required to redeem all of the Senior Notes outstanding, at the discretion of the holders of Senior Notes, at a redemption price equal to 108% of the outstanding principal amount of the Senior Notes, plus accrued and unpaid interest.

(b) Changes of terms of Senior Notes/Warrants on 16 October 2008

The Company did not complete an IPO by 8 October 2008. In accordance with the original terms of Senior Notes, the holders of the Senior Notes have the rights to exercise the redemption put options at any time. On 16 October 2008, the Group entered into a supplementary agreement with the holders of the Senior Notes, under which the Group repaid US\$9 million of the principal amount upon signing of the supplementary agreement. The remaining outstanding balance was to be settled in two instalments, US\$36 million of which would be due on 8 October 2009 while the remaining US\$45 million, together with special redemption premium of US\$2.7 million, would be due on 8 October 2010.

In addition, the exercise price of each Warrant was also changed as follows:

- (i) If the Warrants are exercised before the IPO of the Company, the exercise price of the Warrants would be HK\$560 per share, based on the 1,560,001 shares in issue of the Company.
- (ii) If the Warrants are exercised after the IPO and the IPO is completed before 9 October 2010, the holders of the Warrants can exercise the Warrants at a price of a 60% discount on the IPO price.
- (iii) If the Warrants are exercised after the IPO and the IPO is completed after 9 October 2010, the holders of the Warrants can exercise the Warrants at a price of a 75% discount on the IPO price.

The Warrants would be expired in 2014.

15 SENIOR NOTES/WARRANTS — THE GROUP AND THE COMPANY *(Continued)***(c) Changes of terms of Senior Notes/Warrants on 16 November 2009**

According to the terms of Senior Notes changed on 16 October 2008, the Group was required to repay US\$36 million principal amount on 8 October 2009. The Group repaid US\$18 million on 8 October 2009.

On 16 November 2009, the Group entered into a second amendment agreement with the holders of the Senior Notes, under which US\$18 million, US\$27 million and US\$18 million would be due on 31 December 2009, 8 October 2010 and 8 April 2011 respectively, with a redemption premium of US\$1.35 million which would be due on 8 April 2011. Also, the Group had an option to early repay the principal of the Senior Notes. If the Group repay the whole principal amount of the Senior Notes on or before 8 October 2010, the Group would not be required to pay the redemption premium of US\$1.35 million. If the Group is not able to settle the whole principal amount by 8 April 2011, the redemption premium would be increased to US\$2.7 million.

In addition, the commencement date of exercise period of the Warrants changed from the date of issue, i.e. 9 October 2007, to 9 October 2010. If the Senior Notes are fully repaid by 8 October 2010, the Warrants would be lapsed immediately. The directors were of the opinion that the Group would and would be able to settle the full principal and accrued interest of the Senior Notes by 8 October 2010 and the value of Warrants as at 31 December 2009 was estimated to be zero accordingly.

The principal amount of the Senior Notes US\$18 million due on 31 December 2009 was repaid by the due date.

(d) Changes of terms of Senior Notes/Warrants on 25 June 2010

On 25 June 2010, the Group entered into a third amendment agreement with the holders of the Senior Notes. In accordance with the third amendment agreement, if the IPO of the Company would take place on or before 15 July 2010, US\$11.25 million of the outstanding principal amount of the Senior Notes would be mandatorily converted into shares of the Company at the IPO price. The remaining outstanding balance of US\$22.5 million and US\$11.25 million respectively would be due one month after the IPO date and on 8 October 2010 respectively. In addition, if the IPO takes place on or before 15 July 2010, the Warrants would be lapsed upon the IPO date and the fair value of the warrants remained zero as at 30 June 2010 based on the assumption that the IPO of the Company would be completed on or before 15 July 2010.

On 15 July 2010, the IPO took place and the Warrants were lapsed immediately. In addition, all the outstanding principal and accrued interest of the Senior Notes were repaid after the IPO of the Company.

16 TRADE AND OTHER PAYABLES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade payables (note (a))	19,893	37,273
Receipts in advance	791,179	853,920
Other payables and accruals (note (b))	849,874	373,187
Amounts due to related parties	25,980	19,003
	1,686,926	1,283,383

- (a) Included in trade and other payables were trade payables with the following ageing analysis as at each balance sheet date:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Due within 1 month or on demand	19,893	37,273

- (b) Included in other payables and accruals as at 30 June 2010 were accrued construction costs to Hebei Tian Shan Industrial Group Construction Engineering Company Limited ("Tian Shan Construction"), a related company of the Group amounted to RMB38,945,000 (31 December 2009: RMB20,994,000).

17 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2010 not provided for in the interim financial report are set out as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Authorised but not contracted for	9,007,331	6,028,235
Contracted but not provided for	1,026,898	797,101
	10,034,229	6,825,336

Capital commitments mainly related to land and development costs for the Group's properties under development.

18 CONTINGENT LIABILITIES

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default in the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to banks. The Group's guarantee period commences from the dates of grants of the relevant mortgage loans and ends after the purchasers obtain the individual property ownership certificates of the properties purchased. The maximum amounts of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at 30 June 2010 are set out as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	1,863,800	1,836,364

18 CONTINGENT LIABILITIES (Continued)

The directors consider that it is not probable that the Group will sustain a loss under these guarantees as during the periods under guarantees, the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors. The directors also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

19 MATERIAL RELATED PARTY TRANSACTIONS

Other than those disclosed in notes 11, 13 and 16 to the interim financial report, the Group had the following significant transactions and balances with related parties during the six months ended 30 June 2010:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Construction cost (note (i))	183,441	78,591
Rental expense (note (ii))	193	193
Remuneration to key management personnel (note (iii))	1,638	680

Notes:

- (i) The balance represents costs in relation to the construction services rendered by Tian Shan Doors and Windows Installation Company Limited and Tian Shan Construction, both are companies wholly owned by the directors of the Group.
- (ii) The balance represents rental expenses paid to Tian Shan Construction for office and staff quarter occupied by the Group.
- (iii) The directors are of the opinion that the key management personnel of the Group are the directors of the Company during the period.
- (iv) During the six months ended 30 June 2010, the Group received property management services in relation to the unsold properties from Shijiazhuang Tian Shan Property Management Company Limited, a fellow subsidiary of the Group, with no consideration.
- (v) The Group was granted a license to use the trademarks "Tian Shan" pursuant to the relevant trademark licence agreement entered into between Hebei Tianshan Industrial Group Company Limited as licensor and Hebei Tianshan Real Estate, a subsidiary of the Group as licensee at nil consideration.



**Review report to the board of directors of
Tian Shan Development (Holding) Limited**

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 33 which comprises the consolidated balance sheet of Tian Shan Development (Holding) Limited as of 30 June 2010 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8 Floor, Prince's Building

10 Chater Road

Central, Hong Kong

30 August 2010