

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. This report is prepared in accordance with Rule 4.05A of the Listing Rules in relation to the pre-acquisition financial information of Haixi Investment (or otherwise referred to as SCE Fortune Plaza in this prospectus) and its subsidiaries (the "Haixi Group") for each of the three years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009. Completion of the acquisition of the Haixi Group took place on September 22, 2009. As Haixi Investment only prepares management accounts on a monthly basis, hence there are no management accounts as of September 22, 2009 readily available. In addition, the Haixi Group did not carry out any substantive operations during the nine months ended September 30, 2009, and, in particular, there were no material transactions conducted by the Haixi Group between the date of our acquisition and September 30, 2009. Our Directors are therefore of the opinion that the impact (if any) to have the report drawn up to September 30, 2009, instead of the date of acquisition, both in terms of net assets value and loss for the period, would be immaterial.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

25 January 2010

The Directors
China SCE Property Holdings Limited
Deutsche Bank AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Fujian Straits West-Coast Investment Co., Ltd. (福建省海峽西岸投資發展有限公司[#]) ("Haixi Investment") and its subsidiary (collectively the "Haixi Group") for each of the three years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009 (collectively the "Track Record Periods") and comparative financial information (the "Comparative Financial Information") of the Haixi Group for the nine months ended 30 September 2008, for inclusion in the prospectus of China SCE Property Holdings Limited (the "Company") dated 25 January 2010 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Haixi Investment was established as a limited liability company in the People's Republic of China (the "PRC" or "Mainland China") on 22 August 2005. The Haixi Group is principally engaged in property development and the operation and management of sports and recreation facilities in Quanzhou, the PRC.

Particulars of the subsidiary of Haixi Investment as at the date of this report are set out below:

Company name	Place and date of establishment and operations	Nominal value of paid-up capital	Percentage of equity directly attributable to Haixi Investment	Principal activities
泉州市海峽體育中心有限公司 ^{#(1)} Quanzhou Straits Sports Center Co., Ltd. ("Quanzhou Sports Center")	The PRC 12 January 2006	RMB300,000,000	100%	Operation and management of sports and recreation facilities

The English name of these companies represent the best effort made by management of Haixi Investment to directly translate their Chinese name as Haixi Investment and Quanzhou Sports Center do not register any official English name.

* Registered as a limited liability company under PRC law.

⁽¹⁾ No statutory financial statements have been prepared for Quanzhou Sports Center for the period from 12 January 2006 to 31 December 2006. The statutory financial statements of Quanzhou Sports Center for each of the two years ended 31 December 2008 were audited by Quanzhou Hongcheng Accountants Office Co., Ltd. (泉州洪城會計師事務所有限公司) and Xiamen Dashan Certified Public Accountants Co., Ltd. (廈門達山會計師事務所有限公司), respectively, all of which are registered in the PRC.

Haixi Investment and Quanzhou Sports Center have adopted 31 December as their financial year end date. The statutory financial statements of Haixi Investment and Quanzhou Sports Center were prepared in accordance with the accounting principles and financial regulations applicable to PRC enterprises and all of which were not audited by us. The statutory financial statements of Haixi Investment for each of the three years ended 31 December 2008 were audited by Quanzhou ZhiCheng Certified Public Accountants Co., Ltd. (泉州志成會計師事務所有限公司, formerly known as 福建志成會計師事務所有限公司), which is registered in the PRC.

For the purpose of this report, the directors of Haixi Investment have prepared the consolidated financial statements (the "Underlying Financial Statements") of Haixi Investment for the Track Record Periods and the nine months ended 30 September 2008 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of Haixi Investment are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements, the Financial Information and the Comparative Financial Information in accordance with HKFRSs issued by the HKICPA.

In preparing the Financial Information and the Comparative Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. It is our responsibility to form an independent opinion and a review conclusion, based on our audit and review, on the Financial Information and the Comparative Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

Procedures performed in respect of the Financial Information

The Financial Information has been prepared based on the Underlying Financial Statements. For the purpose of this report, we have carried out an independent audit on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and such additional procedures we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary to adjust the Underlying Financial Statements of the Haixi Group for the Track Record Periods to conform to the Financial Information.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Procedures performed in respect of the Comparative Financial Information

For the purpose of this report, we have also performed a review of the Comparative Financial Information 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 HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Comparative Financial Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Haixi Group and Haixi Investment as at 31 December 2006, 2007 and 2008 and 30 September 2009 and of the consolidated results and cash flows of the Haixi Group for each of the Track Record Periods.

Review conclusion in respect of the Comparative Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Comparative Financial Information does not give a true and fair view of the consolidated results and cash flows of the Haixi Group for the nine months ended 30 September 2008.

I. FINANCIAL INFORMATION

(a) Consolidated Statements of Comprehensive Income

	Notes	Year ended 31 December			Nine months ended 30 September	
		2006	2007	2008	2008	2009
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
						<i>(unaudited)</i>
REVENUE	6	—	—	—	—	662
Cost of sales		—	—	(269)	—	(4,009)
Gross loss		—	—	(269)	—	(3,347)
Other income and gains	6	21,176	6,660	3,177	3,156	342
Selling and marketing expenses.....		—	—	(3,997)	(824)	(582)
Administrative expenses		(5,181)	(17,467)	(26,079)	(18,907)	(23,714)
Other expenses.....		—	(10,000)	(24,142)	—	—
Finance costs.....	7	(5,265)	(26,561)	(18,790)	(14,462)	(13,715)
PROFIT/(LOSS) BEFORE TAX	8	10,730	(47,368)	(70,100)	(31,037)	(41,016)
Tax.....	11	(2,922)	11,274	15,692	7,594	8,096
PROFIT/(LOSS) FOR THE YEAR/PERIOD		7,808	(36,094)	(54,408)	(23,443)	(32,920)
Other comprehensive income		—	—	—	—	—
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR/PERIOD ...		<u>7,808</u>	<u>(36,094)</u>	<u>(54,408)</u>	<u>(23,443)</u>	<u>(32,920)</u>

(b) Consolidated Statements of Financial Position

	Notes	As at 31 December			As at
		2006	2007	2008	30 September
		RMB'000	RMB'000	RMB'000	2009
				RMB'000	
NON-CURRENT ASSETS					
Property and equipment.....	14	1,333	10,465	9,633	8,729
Prepaid land lease payments.....	15	—	395,240	726,616	712,719
Properties under development.....	16	669	167,863	214,909	212,629
Intangible asset	17	—	—	5,000	4,861
Prepayments	19	607,000	557,176	264,411	264,411
Deferred tax assets	25	—	11,274	26,966	35,062
Total non-current assets		609,002	1,142,018	1,247,535	1,238,411
CURRENT ASSETS					
Prepayments, deposits and other receivables.....	19	88,364	346,775	128,435	155,704
Due from related parties	20	48,701	91,405	126,406	—
Restricted cash	21	19,492	4,698	45,170	172,159
Cash and cash equivalents.....	21	183,734	3,685	3,023	2,293
Total current assets		340,291	446,563	303,034	330,156
CURRENT LIABILITIES					
Trade payables.....	22	—	—	12,961	2,343
Other payables and accruals	23	45,286	150,898	226,635	117,107
Interest-bearing bank loans.....	24	—	428,300	182,750	100,000
Due to related parties	20	31,180	262,650	475,629	126,824
Tax payable		2,922	2,922	2,922	2,922
Total current liabilities		79,388	844,770	900,897	349,196
NET CURRENT ASSETS/(LIABILITIES) ...		260,903	(398,207)	(597,863)	(19,040)
TOTAL ASSETS LESS CURRENT LIABILITIES		869,905	743,811	649,672	1,219,371

	Notes	As at 31 December			As at
					30 September
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Interest-bearing bank loans.....	24	130,000	40,000	—	330,000
Provision for major overhauls	26	—	—	269	2,888
Total non-current liabilities		<u>130,000</u>	<u>40,000</u>	<u>269</u>	<u>332,888</u>
Net assets		<u>739,905</u>	<u>703,811</u>	<u>649,403</u>	<u>886,483</u>
EQUITY					
Equity attributable to equity holders of the parent					
Paid-up capital.....	27	730,000	730,000	730,000	1,000,000
Retained profits/(accumulated losses)		<u>9,905</u>	<u>(26,189)</u>	<u>(80,597)</u>	<u>(113,517)</u>
Total equity		<u>739,905</u>	<u>703,811</u>	<u>649,403</u>	<u>886,483</u>

(c) Statements of Financial Position of Haixi Investment

	Notes	As at 31 December			As at
		2006	2007	2008	30 September
		RMB'000	RMB'000	RMB'000	2009
				RMB'000	
NON-CURRENT ASSETS					
Property and equipment.....	14	199	9,565	8,966	7,876
Prepaid land lease payments.....	15	—	395,240	726,616	712,719
Properties under development.....	16	669	167,863	214,909	212,629
Investment in a subsidiary	18	300,000	300,000	300,000	300,000
Prepayments	19	607,000	557,176	264,411	264,411
Deferred tax assets	25	—	11,274	26,966	35,062
Total non-current assets		<u>907,868</u>	<u>1,441,118</u>	<u>1,541,868</u>	<u>1,532,697</u>
CURRENT ASSETS					
Prepayments, deposits and other receivables.....	19	88,363	257,367	84,281	111,275
Due from related parties	20	48,701	91,405	126,406	—
Restricted cash.....	21	—	—	—	162,088
Cash and cash equivalents.....	21	183,704	1,992	753	1,509
Total current assets		<u>320,768</u>	<u>350,764</u>	<u>211,440</u>	<u>274,872</u>
CURRENT LIABILITIES					
Trade payables.....	22	—	—	12,961	2,343
Other payables and accruals	23	25,960	54,035	129,232	61,341
Interest-bearing bank loans.....	24	—	428,300	182,750	—
Due to a subsidiary	18	299,166	300,000	300,000	390,095
Due to related parties	20	31,180	262,650	475,629	126,824
Tax payable		2,922	2,922	2,922	2,922
Total current liabilities		<u>359,228</u>	<u>1,047,907</u>	<u>1,103,494</u>	<u>583,525</u>
NET CURRENT LIABILITIES.....		<u>(38,460)</u>	<u>(697,143)</u>	<u>(892,054)</u>	<u>(308,653)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>869,408</u>	<u>743,975</u>	<u>649,814</u>	<u>1,224,044</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank loans.....	24	130,000	40,000	—	330,000
Total non-current liabilities		<u>130,000</u>	<u>40,000</u>	<u>—</u>	<u>330,000</u>
Net assets		<u>739,408</u>	<u>703,975</u>	<u>649,814</u>	<u>894,044</u>
EQUITY					
Equity attributable to equity holders of the parent					
Paid-up capital.....	27	730,000	730,000	730,000	1,000,000
Retained profits/(accumulated losses)		9,408	(26,025)	(80,186)	(105,956)
Total equity		<u>739,408</u>	<u>703,975</u>	<u>649,814</u>	<u>894,044</u>

(d) Consolidated Statements of Changes in Equity

	Paid-up capital	Retained profits/ (accumulated losses)	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2006.....	730,000	2,097	732,097
Total comprehensive income for the year.....	<u>—</u>	<u>7,808</u>	<u>7,808</u>
At 31 December 2006 and 1 January 2007	730,000	9,905	739,905
Total comprehensive loss for the year.....	<u>—</u>	<u>(36,094)</u>	<u>(36,094)</u>
At 31 December 2007 and 1 January 2008	730,000	(26,189)	703,811
Total comprehensive loss for the year.....	<u>—</u>	<u>(54,408)</u>	<u>(54,408)</u>
At 31 December 2008 and 1 January 2009	730,000	(80,597)	649,403
Capital contribution by shareholders	270,000	—	270,000
Total comprehensive loss for the period.....	<u>—</u>	<u>(32,920)</u>	<u>(32,920)</u>
At 30 September 2009.....	<u>1,000,000</u>	<u>(113,517)</u>	<u>886,483</u>
At 1 January 2008.....	730,000	(26,189)	703,811
Total comprehensive loss for the period (unaudited).....	<u>—</u>	<u>(23,443)</u>	<u>(23,443)</u>
At 30 September 2008 (unaudited)	<u>730,000</u>	<u>(49,632)</u>	<u>680,368</u>

(e) Consolidated Statements of Cash Flows

Notes	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax.....	10,730	(47,368)	(70,100)	(31,037)	(41,016)
Adjustments for:					
Finance costs	7	5,265	26,561	18,790	14,462
Interest income	6	(1,524)	(237)	(177)	(156)
Depreciation	8	72	857	1,616	1,297
Gains on disposals of financial assets at fair value through profit or loss	6	(16,423)	(4,005)	—	—
Forfeiture of guarantee deposits	8	—	10,000	15,000	—
Write-off of project costs	8	—	—	7,344	—
Amortisation of prepaid land lease payments	8	—	7,379	13,158	8,525
Amortisation of an intangible asset...	8	—	—	—	139
Provision for major overhauls	8	—	—	269	2,619
Operating loss before working capital changes		(1,880)	(6,813)	(14,100)	(7,000)
Additions to prepaid land lease payments		—	(575,980)	(353,742)	(353,742)
Increase in properties under development		(589)	(3,154)	(54,390)	(6,813)
Decrease/(increase) in prepayments, deposits and other receivables		(458,097)	(39,227)	335,807	307,820
Increase/(decrease) in trade payables .		—	—	12,961	3,354
Increase/(decrease) in other payables and accruals		45,194	103,462	72,887	48,833
Cash used in operations		(415,372)	(521,712)	(577)	(7,548)
Interest received		1,524	237	177	156
Interest paid		(5,265)	(24,411)	(20,940)	(16,612)
Net cash outflow from operating activities		(419,113)	(545,886)	(21,340)	(24,004)
					(162,901)

Notes	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property and equipment.....	(1,300)	(9,989)	(784)	(369)	(393)
Purchases of financial assets at fair value through profit or loss	(700,000)	(80,000)	—	—	—
Addition to an intangible asset	—	—	—	—	(5,000)
Proceeds from disposals of financial assets at fair value through profit or loss	796,423	84,005	—	—	—
Decrease/(increase) in other receivables	(110)	(170,039)	169,506	170,100	—
Decrease/(increase) in amounts due from related parties	43,704	(42,704)	(35,001)	(20,000)	78,774
Decrease/(increase) in restricted cash.	<u>(19,492)</u>	<u>14,794</u>	<u>(40,472)</u>	<u>(17,172)</u>	<u>(126,989)</u>
Net cash inflow/(outflow) from investing activities	<u>119,225</u>	<u>(203,933)</u>	<u>93,249</u>	<u>132,559</u>	<u>(53,608)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital contribution from shareholders.	300,000	—	—	—	270,000
New bank and other borrowings.....	130,000	368,300	142,750	142,750	330,000
Repayment of bank and other borrowings	—	(30,000)	(428,300)	(383,300)	(82,750)
Increase/(decrease) in amounts due to related parties.....	<u>31,180</u>	<u>231,470</u>	<u>212,979</u>	<u>139,697</u>	<u>(301,471)</u>
Net cash inflow/(outflow) from financing activities	<u>461,180</u>	<u>569,770</u>	<u>(72,571)</u>	<u>(100,853)</u>	<u>215,779</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS..					
Cash and cash equivalents at beginning of year/period.....	<u>22,442</u>	<u>183,734</u>	<u>3,685</u>	<u>3,685</u>	<u>3,023</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD.....	<u><u>183,734</u></u>	<u><u>3,685</u></u>	<u><u>3,023</u></u>	<u><u>11,387</u></u>	<u><u>2,293</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances.....	<u><u>183,734</u></u>	<u><u>3,685</u></u>	<u><u>3,023</u></u>	<u><u>11,387</u></u>	<u><u>2,293</u></u>

II. NOTES TO FINANCIAL INFORMATION**1. CORPORATE INFORMATION**

Fujian Straits West-Coast Investment Co., Ltd. (“Haixi Investment”) was established as a limited liability company in the People’s Republic of China (the “PRC” or “Mainland China”) on 22 August 2005. The principal place of business of Haixi Investment is located at 17-20th Floor, Insurance Building, Fengze Street, Quanzhou, Fujian, the PRC.

Haixi Investment and its subsidiary (collectively the “Haixi Group”) were principally engaged in property development and the operation and management of sports and recreation facilities in Quanzhou, the PRC, during the three years ended 31 December 2008 and the nine months ended 30 September 2009 (the “Track Record Periods”).

2.1 BASIS OF PREPARATION

The financial information of the Haixi Group for the Track Record Periods (the “Financial Information”) has 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 and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting periods commencing from 1 January 2006, 2007, 2008 and 2009, together with the relevant transitional provisions, have been early adopted by the Haixi Group in the preparation of the Financial Information throughout the Track Record Periods.

The Financial Information has been prepared under the historical cost convention, except for certain financial assets and derivative financial instruments, which have been measured at fair value. It is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

2.2 NET CURRENT LIABILITIES

As at 30 September 2009, the current liabilities of the Haixi Group exceeded its current assets by approximately RMB19 million. The Haixi Group finances its operations by obtaining funding from shareholders and interest-bearing bank loans.

China SCE Property Holdings Limited (the “Company”), the intermediate holding company of the Haixi Group, has agreed to provide continual financial support and adequate funds to the Haixi Group, in proportion to the Company’s shareholding in Haixi Investment, to meet the Haixi Group’s liabilities as and when they fall due.

The directors of Haixi Investment are of the opinion that, taking into account the funding from the Company, the Haixi Group has sufficient working capital for its present requirements. Hence, the Financial Information has been prepared on a going concern basis.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Haixi Group has not applied the following new and revised HKFRSSs, that have been issued but are not yet effective, in this Financial Information:

HKFRS 1 (Revised)	<i>First-time Adoption of HKFRSSs¹</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Group Cash-settled Share-based Payment Transactions²</i>
HKFRS 3 (Revised)	<i>Business Combinations¹</i>
HKFRS 9	<i>Financial Instruments⁴</i>
HKAS 24 (Revised)	<i>Related Party Disclosures³</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements¹</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items¹</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners¹</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments⁵</i>

Apart from the above, the HKICPA issued *Improvements to HKFRSSs* which sets out amendments to a number of HKFRSSs primarily with a view to removing inconsistencies and clarifying wording. *Improvements to HKFRSSs* issued in May 2009 contains amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendix to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for annual periods beginning on or after 1 July 2009 and the amendment to Appendix to HKAS 18 which has no transitional provisions specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 July 2010

The Haixi Group is in the process of making an assessment of the impact of these new and revised HKFRSSs upon initial application. So far, it has concluded that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, while other new and revised HKFRSSs are unlikely to have a significant impact on the Haixi Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information incorporates the financial statements of Haixi Investment and its subsidiary for the Track Record Periods. The results of the subsidiary are consolidated from the date of acquisition, being the date on which the Haixi Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Haixi Group are eliminated on consolidation in full.

Subsidiaries

A subsidiary is an entity whose financial and operating policies Haixi Investment controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in Haixi Investment's statement of comprehensive income to the extent of dividends received and receivable. Haixi Investment's investment in a subsidiary is stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), 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 to sell, 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 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.

An assessment is made at each reporting date as to whether there is any 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 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 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.

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Haixi Group; (ii) has an interest in the Haixi Group that gives it significant influence over the Haixi Group; or (iii) has joint control over the Haixi Group;
- (b) the party is a member of the key management personnel of the Haixi Group;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Haixi Group, or any entity that is a related party of the Haixi Group.

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property 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 and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Leasehold improvements	Over the lease term
Furniture, fixtures and office equipment	19%
Motor vehicles	19%

Where parts of an item of property 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 reporting date.

An item of property and equipment 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 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.

Service concession arrangement

The Haixi Group has entered into a service concession arrangement with a government body in Quanzhou, the PRC, for the operation and management of certain sports and recreation facilities. The transactions related to such service concession arrangement are accounted for by the Haixi Group as follows:

Consideration paid by the Haixi Group

An intangible asset (operating concession) is recognised to the extent that the Haixi Group receives a right to charge users of the public services. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below.

Contractual obligations to restore the sports and recreation facilities to a specified level of serviceability

The Haixi Group has contractual obligations which it must fulfil as a condition of its licence. The obligations are (a) to maintain the sports and recreation facilities it operates to a specified level of serviceability and (b) to restore the sports and recreation facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sports and recreation facilities, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 reporting date.

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 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.

An intangible asset is derecognised on 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 comprehensive income in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concession

Operating concession represents the right to operate certain sports and recreation facilities and is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Haixi Group of 30 years.

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 Haixi Group is the lessor, assets leased by the Haixi Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Haixi Group is the lessee, rentals payable under the operating leases are charged to the statement of 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.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Investments and other financial assets

Financial assets of the Haixi Group in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Haixi Group assesses whether a contract contains an embedded derivative when the Haixi Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Haixi Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Haixi 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the statement of comprehensive income. The net fair value gain or loss recognised in the statement of comprehensive income does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue Recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; or a discounted cash flow analysis.

Impairment of financial assets

The Haixi Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance amount. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in technological, market, economic or legal environment that have an adverse effect on the debtor) that the Haixi Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 derecognised where:

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

Where the Haixi Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Haixi Group's continuing involvement in the asset. 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 Haixi Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Haixi Group's continuing involvement is the amount of the transferred asset that the Haixi Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Haixi Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including trade and other payables, amounts due to related parties and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and 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. The related interest expense is recognised within “Finance costs” in the statement of comprehensive income.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Haixi Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the reporting date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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 comprehensive income.

Cash and cash equivalents

For the purpose of the consolidated statements 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 Haixi Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 reporting date 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 comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability 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 taxable temporary differences associated with an investment in a subsidiary, where 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, 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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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 an investment in a subsidiary, 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 each reporting date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the reporting date.

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 Haixi Group and when the revenue can be measured reliably, on the following bases:

- (a) facilities rental income, on a time proportion basis over the lease terms;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) management fee income, when the management services are rendered; and
- (d) income from the sale of financial assets at fair value through profit or loss, on the trade date.

Retirement benefit scheme

The employees of the Haixi Group are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal governments. The Haixi Group is required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Haixi Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Pension Scheme.

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.

Foreign currencies

The functional currency of Haixi Investment and the presentation currency for the Financial Information is RMB. Each entity in the Haixi Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling 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 reporting date. All differences are taken to the statements of comprehensive income. 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 determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Useful lives and impairment of property and equipment

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

The carrying value of an item of property 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 the relevant part of this section. The recoverable amount of an item of property and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

PRC corporate income tax ("CIT")

The Haixi Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the 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 level of future taxable profits together with future tax planning strategies.

Provision for major overhauls

The Haixi Group has contractual obligations which it must fulfil as a condition of the operating concession granted by the grantor, that are (a) to maintain the sports and recreation facilities it operates to a specified level of serviceability and (b) to restore the sports and recreation facilities to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sports and recreation facilities, except for upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The estimation of the expenditure requires the Haixi Group to estimate the expected future cash outlays on major overhauls of the facilities over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. SEGMENT INFORMATION

The Haixi Group is principally engaged in the property development and the operation and management of sports and recreation facilities businesses. However, no pre-sale or sale of properties has been commenced during the Track Record Periods and the revenue recognised during the Track Record Periods is solely derived from the operation and management of sports and recreation facilities business. Accordingly, no segment analysis was prepared for management reporting purposes.

The Haixi Group's revenue from external customers is derived solely from its operations in Mainland China and the non-current assets of the Haixi Group are all located in Mainland China.

For the nine months ended 30 September 2009, revenue from two of the Haixi Group's customers amounting to RMB400,000 and RMB60,000 individually, and had accounted for over 69% of the Haixi Group's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Haixi Group's turnover, represents the gross facilities rental income, net of business tax, received and receivable during the Track Record Periods.

An analysis of the Haixi Group's other income and gains during the Track Record Periods is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Other income and gains					
Project management fee income.....	2,455	2,400	3,000	3,000	—
Bank interest income.....	1,524	237	177	156	60
Gains on disposals of financial assets at fair value through profit or loss.....	16,423	4,005	—	—	—
Rental income.....	—	—	—	—	262
Others.....	774	18	—	—	20
	<u>21,176</u>	<u>6,660</u>	<u>3,177</u>	<u>3,156</u>	<u>342</u>

7. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Interests on bank and other loans wholly repayable within five years.....	5,265	26,561	18,790	14,462	13,706
Increase in a discounted amount of provision for major overhauls arising from the passage of time...	—	—	—	—	9
Total interests on financial liabilities not at fair value through profit or loss.....	<u>5,265</u>	<u>26,561</u>	<u>18,790</u>	<u>14,462</u>	<u>13,715</u>

8. PROFIT/(LOSS) BEFORE TAX

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

	Notes	Year ended 31 December			Nine months ended 30 September	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
Cost of services provided		—	—	269	—	4,009
Depreciation	14	72	857	1,616	1,206	1,297
Amortisation of prepaid land lease payments *	15	—	7,379	13,158	8,525	16,357
Amortisation of an intangible asset	17	—	—	—	—	139
Minimum lease payments under operating leases for land and buildings		112	442	1,070	486	679
Auditors' remuneration		—	8	21	11	55
Employee benefit expense (including directors' remuneration (note 9)): Salaries and other staff costs		1,201	2,221	2,520	1,149	1,188
Retirement benefit scheme contributions		1	38	110	102	70
		<u>1,202</u>	<u>2,259</u>	<u>2,630</u>	<u>1,251</u>	<u>1,258</u>
Provision for major overhauls ...		—	—	269	—	2,619
Forfeiture of guarantee deposits**		—	10,000	15,000	—	—
Compensation paid to a contractor**		—	—	1,798	—	—
Write-off of project costs**		—	—	7,344	—	—

* Includes the amortisation of a land use right included in properties under development of RMB2,460,000 for the nine months ended 30 September 2009 due to the suspension of the development of the relevant properties.

** These items are included in "Other expenses" on the face of the consolidated statements of comprehensive income of the Haixi Group during the Track Record Periods.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the Track Record Periods, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Nine months ended 30 September 2009
	<i>RMB'000</i>
Fees.....	—
Other emoluments:	
Salaries and allowances	5
Retirement benefit scheme contributions	—
	<u>5</u>

Except for the nine months ended 30 September 2009, no directors of the Haixi Group received remuneration during the Track Record Periods for their services rendered to the Haixi Group.

The remuneration of an executive director for the nine months ended 30 September 2009 is set out below:

	Fees	Salaries and allowances	Retirement benefit scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nine months ended 30 September 2009:				
Mr. Luo Hui Yu.....	<u>—</u>	<u>5</u>	<u>—</u>	<u>5</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Periods.

10. FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid employees, who are non-directors, for the Track Record Periods, are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i>
Salaries and allowances.....	663	816	702	562	268
Retirement benefit scheme contributions	<u>1</u>	<u>8</u>	<u>38</u>	<u>33</u>	<u>3</u>
	<u>664</u>	<u>824</u>	<u>740</u>	<u>595</u>	<u>271</u>

The remuneration of all of the non-director, highest paid employees fell within the band of Nil to RMB500,000 for each of the Track Record Periods.

11. TAX

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i>
PRC CIT:					
Current	2,922	—	—	—	—
Deferred (note 25).....	<u>—</u>	<u>(11,274)</u>	<u>(15,692)</u>	<u>(7,594)</u>	<u>(8,096)</u>
Total tax charge/(credit) for the year/period	<u>2,922</u>	<u>(11,274)</u>	<u>(15,692)</u>	<u>(7,594)</u>	<u>(8,096)</u>

The income tax provision of the Haixi Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for each of the Track Record Periods, based on the existing legislation, interpretations and practices in respect thereof. For each of the entities of the Haixi Group, CIT is provided at the applicable rates of the profits for the purpose of the PRC statutory financial reporting, adjusted for those items which are not assessable or deductible.

Prior to 1 January 2008, the Haixi Group was subject to CIT at the statutory rate of 33%. On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%.

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory rates for the jurisdiction in which Haixi Investment and its subsidiary are domiciled to the tax charge/(credit) at the effective tax rates is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Profit/(loss) before tax	<u>10,730</u>	<u>(47,368)</u>	<u>(70,100)</u>	<u>(31,037)</u>	<u>(41,016)</u>
At the statutory tax rates	3,541	(15,631)	(17,525)	(7,760)	(10,254)
Effect of change in tax rates used for the recognition of deferred taxes	—	3,607	—	—	—
Income not subject to tax	(503)	(72)	—	—	—
Expenses not deductible for tax.....	299	975	1,900	354	1,050
Tax losses not recognised	—	—	—	—	1,108
Others	<u>(415)</u>	<u>(153)</u>	<u>(67)</u>	<u>(188)</u>	<u>—</u>
Tax charge/(credit) at the Haixi Group's effective rates	<u>2,922</u>	<u>(11,274)</u>	<u>(15,692)</u>	<u>(7,594)</u>	<u>(8,096)</u>

12. DIVIDENDS

No dividend has been declared by Haixi Investment during the Track Record Periods.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. PROPERTY AND EQUIPMENT

The Haixi Group:

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2006, net of accumulated depreciation	—	105	—	105
Additions	—	517	783	1,300
Depreciation	—	(61)	(11)	(72)
At 31 December 2006 and 1 January 2007, net of accumulated depreciation	—	561	772	1,333
Additions	7,414	1,244	1,331	9,989
Depreciation	(334)	(199)	(324)	(857)
At 31 December 2007 and 1 January 2008, net of accumulated depreciation	7,080	1,606	1,779	10,465
Additions	—	517	267	784
Depreciation	(802)	(371)	(443)	(1,616)
At 31 December 2008 and 1 January 2009, net of accumulated depreciation	6,278	1,752	1,603	9,633
Additions	—	393	—	393
Depreciation	(601)	(351)	(345)	(1,297)
At 30 September 2009, net of accumulated depreciation	<u>5,677</u>	<u>1,794</u>	<u>1,258</u>	<u>8,729</u>

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2006:				
Cost.....	—	106	—	106
Accumulated depreciation.....	—	(1)	—	(1)
Net carrying value	<u>—</u>	<u>105</u>	<u>—</u>	<u>105</u>
At 31 December 2006 and 1 January 2007:				
Cost.....	—	622	783	1,405
Accumulated depreciation.....	—	(61)	(11)	(72)
Net carrying value	<u>—</u>	<u>561</u>	<u>772</u>	<u>1,333</u>
At 31 December 2007 and 1 January 2008:				
Cost.....	7,414	1,866	2,114	11,394
Accumulated depreciation.....	(334)	(260)	(335)	(929)
Net carrying value	<u>7,080</u>	<u>1,606</u>	<u>1,779</u>	<u>10,465</u>
At 31 December 2008 and 1 January 2009:				
Cost.....	7,414	2,383	2,381	12,178
Accumulated depreciation.....	(1,136)	(631)	(778)	(2,545)
Net carrying value	<u>6,278</u>	<u>1,752</u>	<u>1,603</u>	<u>9,633</u>
At 30 September 2009:				
Cost.....	7,414	2,776	2,381	12,571
Accumulated depreciation.....	(1,737)	(982)	(1,123)	(3,842)
Net carrying value	<u>5,677</u>	<u>1,794</u>	<u>1,258</u>	<u>8,729</u>

Haixi Investment:

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2006, net of accumulated depreciation	—	105	—	105
Additions	—	133	—	133
Depreciation	—	(39)	—	(39)
At 31 December 2006 and 1 January 2007, net of accumulated depreciation	—	199	—	199
Additions	7,414	1,244	1,331	9,989
Depreciation	(334)	(122)	(167)	(623)
At 31 December 2007 and 1 January 2008, net of accumulated depreciation	7,080	1,321	1,164	9,565
Additions	—	517	267	784
Depreciation	(802)	(295)	(286)	(1,383)
At 31 December 2008 and 1 January 2009, net of accumulated depreciation	6,278	1,543	1,145	8,966
Additions	—	26	—	26
Depreciation	(601)	(287)	(228)	(1,116)
At 30 September 2009, net of accumulated depreciation	<u>5,677</u>	<u>1,282</u>	<u>917</u>	<u>7,876</u>
At 1 January 2006:				
Cost	—	106	—	106
Accumulated depreciation	—	(1)	—	(1)
Net carrying value	<u>—</u>	<u>105</u>	<u>—</u>	<u>105</u>

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2006 and 1 January 2007:				
Cost.....	—	238	—	238
Accumulated depreciation.....	—	(39)	—	(39)
Net carrying value	<u>—</u>	<u>199</u>	<u>—</u>	<u>199</u>
At 31 December 2007 and 1 January 2008:				
Cost.....	7,414	1,482	1,331	10,227
Accumulated depreciation.....	(334)	(161)	(167)	(662)
Net carrying value	<u>7,080</u>	<u>1,321</u>	<u>1,164</u>	<u>9,565</u>
At 31 December 2008 and 1 January 2009:				
Cost.....	7,414	1,999	1,598	11,011
Accumulated depreciation.....	(1,136)	(456)	(453)	(2,045)
Net carrying value	<u>6,278</u>	<u>1,543</u>	<u>1,145</u>	<u>8,966</u>
At 30 September 2009:				
Cost.....	7,414	2,025	1,598	11,037
Accumulated depreciation.....	(1,737)	(743)	(681)	(3,161)
Net carrying value	<u>5,677</u>	<u>1,282</u>	<u>917</u>	<u>7,876</u>

15. PREPAID LAND LEASE PAYMENTS

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
At beginning of year/period	—	—	404,561	745,145
Additions	—	575,980	353,742	—
Transferred to properties under development.....	—	(164,040)	—	—
Amortisation recognised during the year/period	—	(7,379)	(13,158)	(13,897)
At end of year/period	—	404,561	745,145	731,248
Current portion included in prepayments, deposits and other receivables	—	(9,321)	(18,529)	(18,529)
Non-current portion.....	—	395,240	726,616	712,719

Certain of the Haixi Group's land use rights with carrying amounts of RMB578,497,000 and RMB224,960,000 as at 31 December 2008 and 30 September 2009, respectively, were pledged to banks to secure the bank loans granted to the Haixi Group (notes 24 and 29(a)), certain related parties and a third party (note 29(b)).

The Haixi Group's leasehold land is situated in Mainland China and held under the following lease terms:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Long term leases	—	171,127	516,553	506,288
Medium term leases	—	233,434	228,592	224,960
	—	404,561	745,145	731,248

16. PROPERTIES UNDER DEVELOPMENT

All of the Haixi Group's properties under development are located in Mainland China and the relevant land use right is held under a medium term lease. As at each reporting date during the Track Record Periods, they were expected to be completed beyond the normal operating cycle and were included under non-current assets.

The land use right with a carrying amount of RMB162,418,000 as at 30 September 2009 was pledged to a bank to secure the bank loans granted to the Haixi Group (note 29(a)).

17. INTANGIBLE ASSET

The Haixi Group:

	Operating concession			As at
	As at 31 December			30 September
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	—	—	—	5,000
Addition	—	—	5,000	—
Amortisation recognised during the year/period	—	—	—	(139)
At end of year/period	<u>—</u>	<u>—</u>	<u>5,000</u>	<u>4,861</u>
Cost.....	—	—	5,000	5,000
Accumulated amortisation	—	—	—	(139)
Net carrying amount	<u>—</u>	<u>—</u>	<u>5,000</u>	<u>4,861</u>

On 28 March 2006, Quanzhou Sports Center entered into an operating right concession agreement (the "Operating Right Agreement") with Quanzhou Sports Bureau (the "Sports Bureau"), a local government body in Quanzhou, the PRC, at a cash consideration of RMB5,000,000. Pursuant to the Operating Right Agreement, Quanzhou Sports Center is granted an operating concession (the "Operating Concession") to operate and manage certain sports and recreation facilities (the "Facilities") in Quanzhou for a period of 30 years (the "Operating Period").

This service concession arrangement involves Quanzhou Sports Center as operator (i) paying a specific amount as consideration to obtain the Operating Concession of the Facilities; (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the Sports Bureau for the Operating Period; and (iii) receiving a right to charge users using the Facilities. Quanzhou Sports Center is entitled to operate and manage the Facilities and all the income associated with the operation of the Facilities. However, the relevant government bodies as grantors will control and regulate the scope of services provided and the prices charged by Quanzhou Sports Center during the Operating Period and retain the ownership and all beneficial entitlement to any residual interest in the Facilities at the end of the Operating Period.

The cost of the Operating Concession is being amortised over the Operating Period.

18. INVESTMENT IN A SUBSIDIARY

Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment, at cost	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>

The amount due to a subsidiary is unsecured, interest-free and is repayable on demand. The carrying amount of such balance approximates to its fair value.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Haixi Group:

	As at 31 December			As at
				30 September
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments (note)	608,094	557,901	266,825	266,976
Prepaid land lease payments (note 15).....	—	9,321	18,529	18,529
Deposits	50,004	40,016	25,539	25,564
Receivable from the Sports Bureau ...	—	89,408	44,154	44,107
Other receivables.....	37,266	207,305	37,799	64,939
	695,364	903,951	392,846	420,115
Non-current portion.....	(607,000)	(557,176)	(264,411)	(264,411)
Current portion.....	<u>88,364</u>	<u>346,775</u>	<u>128,435</u>	<u>155,704</u>

Haixi Investment:

	As at 31 December			As at
				30 September
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments (note)	608,094	557,901	266,825	266,976
Prepaid land lease payments (note 15).....	—	9,321	18,529	18,529
Deposits	50,004	40,016	25,539	25,564
Other receivables.....	37,265	207,305	37,799	64,617
	695,363	814,543	348,692	375,686
Non-current portion.....	(607,000)	(557,176)	(264,411)	(264,411)
Current portion.....	<u>88,363</u>	<u>257,367</u>	<u>84,281</u>	<u>111,275</u>

Note: The balances included prepayments for the acquisition of land use rights in Mainland China amounting to RMB607,000,000, RMB557,176,000, RMB264,411,000 and RMB264,411,000 as at 31 December 2006, 2007 and 2008 and 30 September 2009, respectively.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. DUE FROM/TO RELATED PARTIES

An analysis of the balances with related parties is as follows:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Due from related parties:				
Shareholders	48,701	75,585	110,586	—
Family members of a shareholder ..	—	15,820	15,820	—
	<u>48,701</u>	<u>91,405</u>	<u>126,406</u>	<u>—</u>
Due to related parties:				
Shareholders	—	105,650	242,479	23,504
Family members of a shareholder ..	—	30,000	30,000	53,320
Companies controlled by shareholders	<u>31,180</u>	<u>127,000</u>	<u>203,150</u>	<u>50,000</u>
	<u>31,180</u>	<u>262,650</u>	<u>475,629</u>	<u>126,824</u>

The balances are non-trade in nature, unsecured, interest-free and are repayable on demand. The carrying amounts of the amounts due from/to related parties approximate to their fair values.

None of the amounts due from related parties is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Haixi Group:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
Cash and bank balances.....	203,226	8,383	48,193	174,452
Less: Restricted cash (notes (i) and (ii))	(19,492)	(4,698)	(45,170)	(172,159)
Cash and cash equivalents	<u>183,734</u>	<u>3,685</u>	<u>3,023</u>	<u>2,293</u>

Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
Cash and bank balances.....	183,704	1,992	753	163,597
Less: Restricted cash (notes (i))	—	—	—	(162,088)
Cash and cash equivalents	<u>183,704</u>	<u>1,992</u>	<u>753</u>	<u>1,509</u>

Notes:

- (i) According to a bank loan agreement signed by Haixi Investment with its bank in January 2009, the relevant loan proceeds were deposited in a specific bank account and can only be used for the payment of property development costs incurred for a specific project. As at 30 September 2009, such deposits amounted to RMB162,088,000.
- (ii) Pursuant to a management agreement entered into between the Sports Bureau and Quanzhou Sports Center, the fund advanced by the Sports Bureau and deposited in the bank account of Quanzhou Sports Center can only be used for the payments of construction costs and expenditure incurred for the construction of the Facilities. As at 31 December 2006, 2007 and 2008 and 30 September 2009, such deposit amounted to RMB19,492,000, RMB4,698,000, RMB45,170,000 and RMB10,071,000, respectively.

At 31 December 2006, 2007 and 2008 and 30 September 2009, all the cash and bank balances of the Haixi Group are denominated in RMB. 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 Haixi Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for a one-week period, and earn interest at the respective short term time deposit rates. All the bank balances and restricted deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. TRADE PAYABLES

An aged analysis of the trade payables as at each of the reporting dates during the Track Record Periods is as follows:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Within 1 year.....	—	—	12,961	2,343

The trade payables are non-interest-bearing and repayable within one year or on demand.

23. OTHER PAYABLES AND ACCRUALS

The Haixi Group:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Deposits received	—	—	—	180
Other payables	45,286	150,872	226,629	116,922
Accruals	—	26	6	5
	<u>45,286</u>	<u>150,898</u>	<u>226,635</u>	<u>117,107</u>

Haixi Investment:

	As at 31 December			As at
				30 September
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	25,960	54,009	129,226	61,336
Accruals	—	26	6	5
	<u>25,960</u>	<u>54,035</u>	<u>129,232</u>	<u>61,341</u>

The carrying amounts of other payables approximate to their fair values.

24. INTEREST-BEARING BANK LOANS

The Haixi Group:

	As at 31 December			As at 30 September		
	2006	2007	2008	2009	2010	2012
	Contractual interest rate (%)					
	Maturity	Maturity	Maturity	Maturity	Maturity	Maturity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current						
Bank loans - secured.....	—	5.51-5.75	138,300	142,750	5.31	100,000
Bank loans - unsecured..	—	5.51	200,000	—	—	—
Current portion of long term bank loans - unsecured.....	—	5.76-6.3	90,000	40,000	6.3-7.56	—
			428,300	182,750		100,000
Non-current						
Bank loans - secured.....	—	—	—	—	5.4	330,000
Bank loans - unsecured..	5.76	2008-2009	130,000	40,000	—	—
			130,000	40,000		330,000
			130,000	468,300		430,000

Haixi Investment:

	As at 31 December				As at 30 September			
	2006		2007		2008		2009	
	Contractual interest rate (%)	Maturity	Contractual interest rate (%)	Maturity	Contractual interest rate (%)	Maturity	Contractual interest rate (%)	Maturity
		RMB'000		RMB'000		RMB'000		RMB'000
Current								
Bank loans - secured	—	—	5.51-5.75	2008	138,300	7.47	2009	142,750
Bank loans - unsecured..	—	—	5.51	2008	200,000	—	—	—
Current portion of long term bank loans - secured	—	—	5.76-6.3	2008	90,000	6.3-7.56	2009	40,000
					428,300			182,750
Non-current								
Bank loans - secured	—	—	—	—	—	—	—	—
Bank loans - unsecured..	5.76	2008-2009	5.76-6.3	2009	40,000	—	2012	330,000
		130,000			40,000			330,000
		130,000			468,300			330,000

The Haixi Group:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand....	—	428,300	182,750	100,000
In the second year.....	90,000	40,000	—	—
In the third to fifth years, inclusive	40,000	—	—	330,000
	<u>130,000</u>	<u>468,300</u>	<u>182,750</u>	<u>430,000</u>

Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand ..	—	428,300	182,750	—
In the second year.....	90,000	40,000	—	—
In the third to fifth years, inclusive	40,000	—	—	330,000
	<u>130,000</u>	<u>468,300</u>	<u>182,750</u>	<u>330,000</u>

Notes:

- Certain of the Haixi Group's bank loans are secured by the pledge of certain of the Haixi Group's land use rights and properties under development, details of which are disclosed in note 29.
- At 31 December 2007 and 2008, the Haixi Group's short term bank loans with aggregate carrying amounts of RMB138,300,000 and RMB142,750,000, respectively, were secured by the pledge of time deposits of certain family members of a shareholder with an aggregate amount of RMB153,670,000.
- Except for the short term bank loans of RMB338,300,000, RMB142,750,000 and RMB100,000,000 as at 31 December 2007 and 2008 and 30 September 2009, respectively, which bear interest at fixed rates, all other bank loans bear interest at floating interest rates.
- The carrying amounts of the Haixi Group's bank loans approximate to their fair values.

25. DEFERRED TAX

The movements in deferred tax assets during the Track Record Periods are as follows:

The Haixi Group and Haixi Investment:

	<u>Tax losses</u>
	<u>RMB'000</u>
At 1 January 2006, 31 December 2006 and 1 January 2007	—
Credited to the consolidated statement of comprehensive income during the year (note 11)	<u>11,274</u>
Gross deferred tax assets at 31 December 2007 and 1 January 2008.....	11,274
Credited to the consolidated statement of comprehensive income during the year (note 11)	<u>15,692</u>
Gross deferred tax assets at 31 December 2008 and 1 January 2009.....	26,966
Credited to the consolidated statement of comprehensive income during the period (note 11)	<u>8,096</u>
Gross deferred tax assets at 30 September 2009	<u><u>35,062</u></u>

The Haixi Group had unutilised tax losses arising in the PRC of RMB45,096,000, RMB107,864,000 and RMB140,248,000 at 31 December 2007, 31 December 2008 and 30 September 2009, respectively, that can be carried forward for five years from the year in which the losses arose for offsetting against future taxable profits of the tax entity in which the losses arose. Deferred tax assets are recognised for tax losses carried forward only to the extent that the realisation of the related benefits through the future taxable profits is probable. The Haixi Group did not recognise deferred tax assets arising in the PRC in respect of unutilised tax losses of RMB4,432,000 at 30 September 2009 due to the unpredictability of future profit streams..

26. PROVISION FOR MAJOR OVERHAULS

Pursuant to the Operating Right Agreement, the Haixi Group has contractual obligations which it must fulfil as a condition of the Operating Concession. The obligations are (a) to maintain the Facilities it operates to a specified level of serviceability and (b) to restore the Facilities to a specified condition before they are handed over to the Sports Bureau at the end of the Operating Concession. These contractual obligations to maintain or restore the sports and recreation facilities, except for upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for the major overhauls of the Facilities for the Track Record Periods are as follows:

The Haixi Group:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	—	—	—	269
Additional provisions.....	—	—	269	2,610
Increase in a discounted amount arising from the passage of time (note 7)	—	—	—	9
At end of year/period	—	—	269	2,888

27. PAID-UP CAPITAL

	<i>RMB'000</i>
At 1 January 2006	430,000
Capital contribution by shareholders	<u>300,000</u>
At 31 December 2006, 1 January 2007, 31 December 2007, 1 January 2008, 31 December 2008, 1 January 2009	730,000
Capital contribution by shareholders	<u>270,000</u>
At 30 September 2009.....	<u><u>1,000,000</u></u>

28. CONTINGENT LIABILITIES

The Haixi Group had the following financial guarantees as at each of the reporting dates during the Track Record Periods:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees given to banks in connection with facilities granted to:				
Shareholders.....	—	—	200,000	—
Companies controlled by shareholders.....	—	—	115,000	—
A third party.....	—	—	<u>60,000</u>	—
	<u>—</u>	<u>—</u>	<u><u>375,000</u></u>	<u>—</u>

Note: The fair value of the guarantees is not significant and the directors of Haixi Investment consider that the risk of default in payment is remote, and therefore no provision for the guarantees has been made in the Financial Information.

29. PLEDGE OF ASSETS

- (a) At each of the reporting dates during the Track Record Period, the following assets of the Haixi Group were pledged to certain banks for securing the loans granted to the Haixi Group:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2009
				<i>RMB'000</i>
Prepaid land lease payments (note 15)	—	—	—	224,960
Properties under development (note 16)	—	—	—	162,418
	<u>—</u>	<u>—</u>	<u>—</u>	<u>387,378</u>

- (b) At each of the reporting dates during the Track Record Period, the following assets of the Haixi Group were pledged to certain banks for securing the facilities and/or loans granted to a shareholder, certain companies controlled by shareholders and a third party:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
	2006	2007	2008	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2009
				<i>RMB'000</i>
Prepaid land lease payments (note 15)	—	—	578,497	—
	<u>—</u>	<u>—</u>	<u>578,497</u>	<u>—</u>

30. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

The Haixi Group leases part of its land under an operating lease arrangement, with the lease negotiated for a term of 8 months.

At each of the reporting dates during the Track Record Periods, the Haixi Group had total future minimum lease receivables under the non-cancellable operating lease with its tenant falling due as follows:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
Within one year.....	—	—	—	113

(b) **As lessee**

The Haixi Group leases its office premises under operating lease arrangements. Leases for office premises are negotiated for terms of six months to ten years.

At each of the reporting dates, the Haixi Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at
	2006	2007	2008	30 September
	RMB'000	RMB'000	RMB'000	2009
Within one year.....	780	780	912	1,095
In the second to fifth years, inclusive.	3,119	3,119	3,119	3,119
In the sixth to tenth years, inclusive...	3,769	2,989	2,209	1,624
	<u>7,668</u>	<u>6,888</u>	<u>6,240</u>	<u>5,838</u>

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Haixi Group had the following capital commitments at each reporting dates:

The Haixi Group and Haixi Investment:

	As at 31 December			As at
				30 September
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Capital expenditure for the acquisition of land use rights.....	554,000	57,410	7,410	7,410
Capital expenditure for properties under development.....	91	4,381	210,509	10,322
Capital expenditure for leasehold improvements	205	—	—	—
	<u>554,296</u>	<u>61,791</u>	<u>217,919</u>	<u>17,732</u>

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed in notes 15, 20, 24, 28 and 29 to the Financial Information, the Haixi Group had the following material transactions with related parties during the Track Record Periods.

- (a) During the year ended 31 December 2008 and the nine months ended 30 September 2009, the Haixi Group provided financial guarantees with aggregate amounts of RMB315 million and RMB50 million, respectively, to certain banks for securing the facilities and/or loans granted to certain shareholders and companies controlled by certain shareholders. Further details of the financial guarantees provided to related parties as at each of the reporting dates during the Track Record Periods are disclosed in note 28 to the Financial Information.
- (b) During the year ended 31 December 2008, the Haixi Group pledged certain of its land use rights to certain banks to secure the facilities and/or loans granted to certain shareholders or companies controlled by the certain shareholders. Further details of the related assets pledged as at each of the reporting dates during the Track Record Periods are disclosed in note 29(b) to the Financial Information.

- (c) During the two years ended 31 December 2007 and 2008, certain family members of a shareholder have pledged their time deposits with an aggregate amount of RMB153,670,000, as collateral to banks for new bank loans granted to Haixi Investment. Further details of the relevant bank loans secured by the pledge of time deposits of certain family members of a shareholder are disclosed in note 24(b) to the Financial Information.
- (d) In the opinion of the directors, the directors of Haixi Investment represented the key management personnel of the Haixi Group. Further details of the compensation of key management personnel of the Haixi Group are set out in note 9 to the Financial Information.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Haixi Group's principal financial instruments comprise interest-bearing bank loans, amounts due to related parties, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Haixi Group's operations. The Haixi Group has various other financial assets and liabilities such as other receivables and trade and other payables, which arise directly from its operations.

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

Market risk

The Haixi Group's assets are predominantly in the form of prepaid land lease payments and properties under development. In the event of a severe downturn in the property market, these assets may not be readily realised.

Interest rate risk

The Haixi Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than deposits held at banks, the Haixi Group does not have significant interest-bearing assets. Restricted deposits were held at banks in the PRC at the same savings rate of unrestricted deposits throughout the Track Record Periods. The Haixi Group's exposure to the risk of changes in market interest rates relates primarily to the Haixi Group's bank borrowings with floating interest rates. The Haixi Group has not used any interest rate swaps to hedge its exposure to interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Haixi Group's profit/loss before tax. There is no material impact on other components of the Haixi Group's equity.

	Increase/(decrease) in profit/loss before tax	Increase/(decrease) in basis points
	<i>RMB'000</i>	
Year ended 31 December 2006		
RMB.....	(1,950)	150
RMB.....	1,950	(150)
Year ended 31 December 2007		
RMB.....	1,950	150
RMB.....	(1,950)	(150)
Year ended 31 December 2008		
RMB.....	600	150
RMB.....	(600)	(150)
Period ended 30 September 2009		
RMB.....	4,950	150
RMB.....	(4,950)	(150)

Foreign currency risk

The Haixi Group mainly operates in Mainland China with most of its monetary assets, liabilities and transactions principally denominated in RMB. Foreign currency risk arising from future commercial transactions from operations and borrowings which are denominated in currencies other than the functional currency of the Haixi Group is considered minimal.

Credit risk

The credit risk of the Haixi Group's financial assets, which mainly comprise cash and short term deposits, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Due to the capital intensive nature of the Haixi Group's business, the Haixi Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Haixi Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and advances from related parties. In the opinion of the directors of Haixi Investment, the Company will provide continual financial support to the Haixi Group and the Haixi Group expects to have adequate sources of funding to finance the Haixi Group and manage its liquidity position.

The maturity profile of the Haixi Group's financial liabilities as at each of the reporting dates during the Track Record Periods, based on the contractual undiscounted payments, was as follows:

The Haixi Group:

	As at 31 December 2006			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	8,190	96,773	41,260	146,223
Financial liabilities included in other payables and accruals ..	45,286	—	—	45,286
Due to related parties	31,180	—	—	31,180
	<u>84,656</u>	<u>96,773</u>	<u>41,260</u>	<u>222,689</u>
	As at 31 December 2007			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	439,766	41,512	—	481,278
Financial liabilities included in other payables and accruals ..	150,872	—	—	150,872
Due to related parties	262,650	—	—	262,650
	<u>853,288</u>	<u>41,512</u>	<u>—</u>	<u>894,800</u>

	As at 31 December 2008			
	Within one		In the third to	Total
	year or on	In the second	fifth years,	
	demand	year	inclusive	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans	187,211	—	—	187,211
Trade payables	12,961	—	—	12,961
Financial liabilities included in other payables and accruals..	226,629	—	—	226,629
Due to related parties	<u>475,629</u>	<u>—</u>	<u>—</u>	<u>475,629</u>
	<u>902,430</u>	<u>—</u>	<u>—</u>	<u>902,430</u>

	As at 30 September 2009			
	Within one		In the third to	Total
	year or on	In the second	fifth years,	
	demand	year	inclusive	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans	120,518	17,820	335,940	474,278
Trade payables	2,343	—	—	2,343
Financial liabilities included in other payables and accruals..	116,922	—	—	116,922
Due to related parties	<u>126,824</u>	<u>—</u>	<u>—</u>	<u>126,824</u>
	<u>366,607</u>	<u>17,820</u>	<u>335,940</u>	<u>720,367</u>

Haixi Investment:

	As at 31 December 2006			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans	8,190	96,773	41,260	146,223
Financial liabilities included in other payables and accruals..	25,960	—	—	25,960
Due to a subsidiary	299,166	—	—	299,166
Due to related parties	31,180	—	—	31,180
	<u>364,496</u>	<u>96,773</u>	<u>41,260</u>	<u>502,529</u>
	As at 31 December 2007			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans	439,766	41,512	—	481,278
Financial liabilities included in other payables and accruals..	54,009	—	—	54,009
Due to a subsidiary	300,000	—	—	300,000
Due to related parties	262,650	—	—	262,650
	<u>1,056,425</u>	<u>41,512</u>	<u>—</u>	<u>1,097,937</u>

	As at 31 December 2008			
	Within one		In the third to	Total
	year or on	In the second	fifth years,	
	demand	year	inclusive	
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	187,211	—	—	187,211
Trade payables	12,961	—	—	12,961
Financial liabilities included in other payables and accruals..	129,226	—	—	129,226
Due to a subsidiary	300,000	—	—	300,000
Due to related parties	475,629	—	—	475,629
	<u>1,105,027</u>	<u>—</u>	<u>—</u>	<u>1,105,027</u>

	As at 30 September 2009			
	Within one		In the third to	Total
	year or on	In the second	fifth years,	
	demand	year	inclusive	
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans	17,820	17,820	335,940	371,580
Trade payables	2,343	—	—	2,343
Financial liabilities included in other payables and accruals..	61,336	—	—	61,336
Due to a subsidiary	390,095	—	—	390,095
Due to related parties	126,824	—	—	126,824
	<u>598,418</u>	<u>17,820</u>	<u>335,940</u>	<u>952,178</u>

Capital management

The Haixi Group's objectives for managing capital are to safeguard the Haixi Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Haixi Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or obtain funding from shareholders.

The Haixi Group monitors capital on the basis of debt-to-adjusted capital ratio. This ratio is calculated based on net debt and adjusted capital. Net debt is calculated as total interest-bearing bank loans (as shown in the consolidated statements of financial position) less cash and cash equivalents (including restricted cash). Adjusted capital comprises all components of equity (i.e., paid-up capital and reserves), and includes the net amounts due to related parties. The Haixi Group aims to maintain a debt-to-adjusted capital ratio of not exceeding 100%.

The debt-to-adjusted capital ratios as at 31 December 2006, 2007 and 2008 and 30 September 2009 were as follows:

	As at 31 December			As at
	2006	2007	2008	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loans (note 24)	130,000	468,300	182,750	430,000
Less: Cash and bank balances (note 21)	<u>(203,226)</u>	<u>(8,383)</u>	<u>(48,193)</u>	<u>(174,542)</u>
Net debt.....	<u>(73,226)</u>	<u>459,917</u>	<u>134,557</u>	<u>255,548</u>
Equity	739,905	703,811	649,403	886,483
Add: Amounts due to related parties (note 20)	31,180	262,650	475,629	126,824
Less: Amounts due from related parties (note 20)	<u>(48,701)</u>	<u>(91,405)</u>	<u>(126,406)</u>	<u>—</u>
Adjusted capital.....	<u>722,384</u>	<u>875,056</u>	<u>998,626</u>	<u>1,013,307</u>
Debt-to-adjusted capital ratio.....	<u>N/A</u>	<u>52.6%</u>	<u>13.5%</u>	<u>25.2%</u>

III. FINANCIAL STATEMENTS AFTER THE REPORTING PERIOD

No audited financial statements have been prepared by Haixi Investment or its subsidiary in respect of any reporting period after 30 September 2009.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong