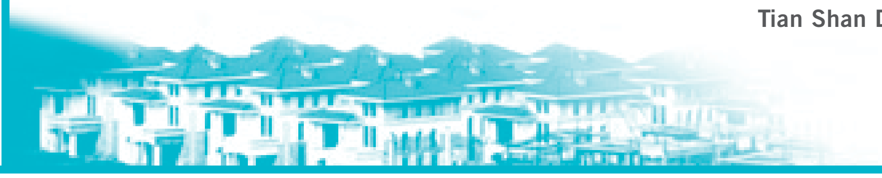
# Tian Shan Development (Holding) Limited
# 天山發展(控股)有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 2118

# Annual Report 2010

# Contents





# Corporate Information

## DIRECTORS

### Executive Directors

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

### Independent Non-Executive Directors

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

## COMPANY SECRETARY

Mr. CHEUNG Siu Yiu, *FCPA, FCCA*

## AUTHORISED REPRESENTATIVES

Mr. WU Zhen Shan
Mr. CHEUNG Siu Yiu

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY WEBSITE

www.tian-shan.com

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## REGISTERED OFFICE IN CAYMAN ISLANDS

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

## AUDITORS

KPMG
Certified Public Accountants

## COMPLIANCE ADVISOR

China Everbright Capital Limited

## PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

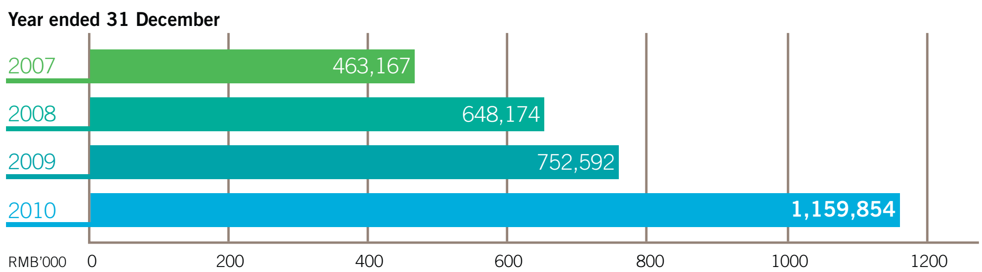
## HONG KONG BRANCH SHARE REGISTER AND TRANSFER OFFICE

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

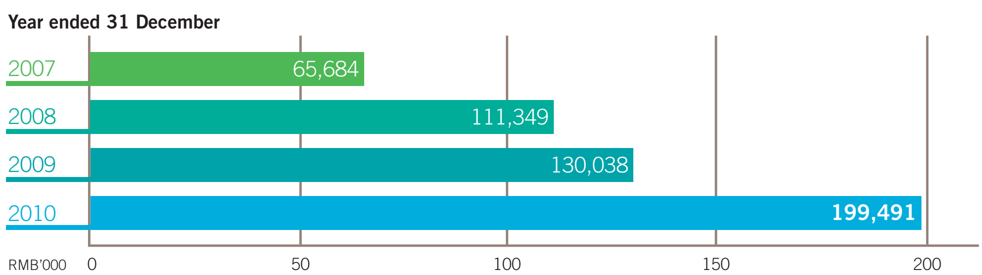
# Financial Highlights

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Turnover | **1,159,854** | 752,592 | 648,174 | 463,167 |
| Gross profit | **379,071** | 250,201 | 265,567 | 178,589 |
| Profit for the year | **199,491** | 130,038 | 111,349 | 65,684 |
| Basic earnings per share (RMB cents) | **23.95** | 18.91 | 16.19 | 9.55 |
| Delivered gross floor area | **442,482 sq.m.** | 254,430 sq.m. | 263,528 sq.m. | 301,827 sq.m. |

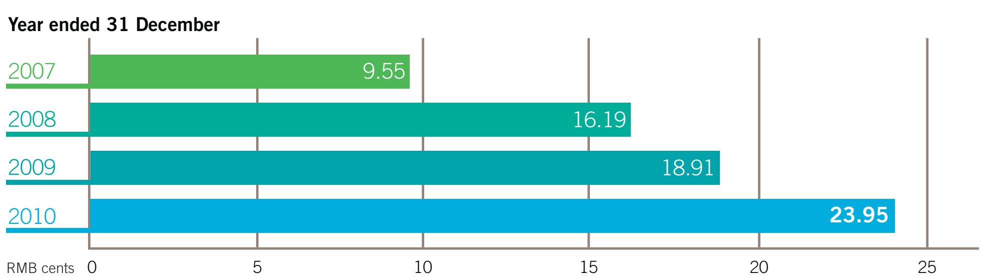
## Turnover




## Profit for the year




## Basic earnings per share



# Property Portfolio

# Property Portfolio

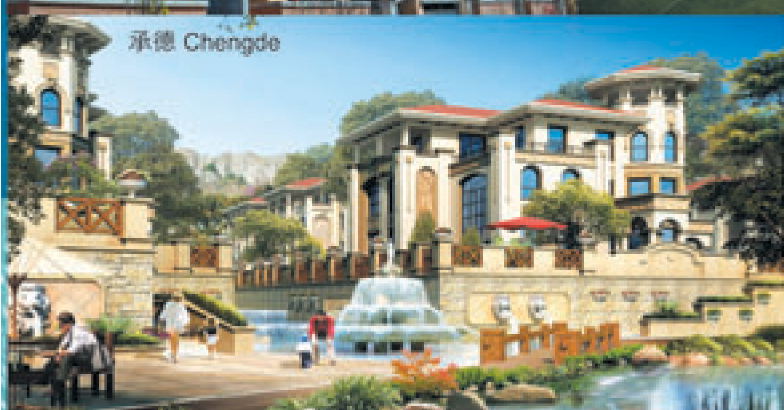

廊坊 Langfang


天津 Tianjin


石家莊 Shijiazhuang


威海 Weihai


邢臺 Xingtai


承德 Chengde

# Chairman's Statement

Dear shareholders,

Looking back on the extraordinary 2010, we feel exceptionally encouraged and proud. As the first property company based in Hebei province that was successfully listed in Hong Kong, Tian Shan Development (Holding) Limited challenges itself and bravely takes up the risks and opportunities ahead. While we have achieved remarkable results in Tianjin, our operations in the Shandong Peninsula began to see initial gains. We also expanded into Shijiazhuang and thrived alongside its Panlong Lake and Hutuo River, writing another flowery chapter for our development. Last year, our great success in property development covered such areas as Tianjin, Shandong, Shijiazhuang, Yuanshi, Yanjiao, Luancheng and Ningjin, with award-winning projects including the A-Class Residential Project Recognised by MOHURD, Model Residential Project for Land-and-Energy-Saving and Environmental Friendly in China, Best Villa in Hebei Province of the China Property Oscar Award 2010, Top Ten Luxury Houses in Hebei Province, Villa with Highest Quality in Hebei Province and Best International Garden in Hebei Province. Investment promotion of the industrial park has entered a new stage and was recognised as the Best Commercial Property in Hebei Province of the China Property Oscar Award 2010. With the joint efforts of all our staff, Tian Shan Real Estate once again ranks one of the top 100 enterprises in Hebei Province with a number of awards, including the Most Innovative Property Company in China, Enterprise with AAA-Class Quality Service and Reputation in China as well as a series of awards under the Enterprise with Highest Social Responsibility in Hebei Province award – Top 10 Entrepreneur in Hebei, Leading Private Enterprise in Shijiazhuang City, Outstanding Person for Urban Development 2010, Enterprise with Highest Social Responsibility for Urban Development 2010 and Enterprise with Greatest Brand Value for Urban Development 2010. All these are convincing evidence for the accumulated strengths of our Company since it entered the international capital market. Today, we sail fast to a route of reform, opening-up, growth and innovation. These achievements comes with our unfailing efforts that would lay a solid foundation for our even greater success.

2011 is an encouraging year full of opportunities and challenges. Our strong growth momentum requires each of us upholds our fighting spirit to push forward our business in a new start line. We will stand higher and see further where a broader space is awaiting us. Let us power up again hand in hand to capture our new victory and create an even brighter future!

Lastly, I would like to express my gratitude to all shareholders, employees, customers and business partners for their supports to the Group in the past year.

**WU Zhen Shan**
*Chairman*

# Management Discussion and Analysis

# Management Discussion and Analysis

## BUSINESS REVIEW

### Property development and investment

Tian Shan Development (Holding) Limited (the "Company", together with its subsidiaries, the "Group") is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 July 2010. The Group is a leading property developer currently focusing on quality residential properties and industrial properties in the Bohai Economic Rim. As at 31 December 2010, the Group had 14 property projects under development and available for sale primarily in Shijiazhuang City, Tianjin City, Weihai City, and Chengde City with a total gross floor area over 1.0 million sq.m..

The following table shows the Group's property projects under development as at 31 December 2010:

| | Name of property projects | Approximate total site area (sq. m.) | Approximate GFA under development (sq. m.) | Interest attributable to the Group | Estimated project completion date |
|---|---|---|---|---|---|
| 1. | New Great Earldom | 37,967 | 20,901 | 100% | October 2011 |
| 2. | Contemporary Noble Territory | 36,481 | 43,200 | 100% | October 2011 |
| 3. | Tianjin Tian Shan Wonderful Waterside View (Phase I) | 243,714 | 492,311 | 100% | December 2013 |
| 4. | Sanhe Tian Shan International Enterprise Base | 181,198 | 64,488 | 100% | December 2013 |
| 5. | Chengde Tian Shan Wonderful Waters View | 80,845 | 58,829 | 100% | December 2012 |
| 6. | Tian Shan Long Hu Wan (Phase I) | 41,936 | 36,691 | 100% | October 2011 |
| 7. | Tian Shan Long Hu Wan (Phase II) | 49,313 | 41,637 | 100% | October 2011 |
| 8. | Weihai Tian Shan Contemporary Noble Territory | 112,450 | 101,598 | 100% | November 2012 |
| 9. | Ningjin Tian Shan Wonderful Waterside View | 93,328 | 56,408 | 100% | October 2012 |
| 10. | Tian Shan Shijiazhuang Mechanical Industry Park | 210,969 | 4,455 | 100% | May 2011 |
| 11. | Tianjin Tian Shan Wonderful Waterside View (Phase II) | 502,965 | 29,243 | 100% | May 2016 |
| 12. | Weihai Tian Shan Waterside View (Phase I) | 79,860 | 47,200 | 100% | October 2012 |
| 13. | Tian Shan Long Hu Wan (Phase III) | 65,333 | 4,956 | 100% | December 2013 |
| 14. | Weihai Tian Shan international Enterprise Base | 266,570 | 30,448 | 100% | December 2013 |
| **Subtotal** | | **2,002,929** | **1,032,365** | | |

## Management Discussion and Analysis

The Group's brand "*Tian Shan*" is well recognised by its customers. The Group's business objective is to provide a comfortable living environment to its customers. Following the global economic recovery and the strong economic growth in the Bohai Economic Rim, during the year ended 31 December 2010, the Group recorded a satisfactory turnover of RMB1,159.9 million (2009: RMB752.6 million) and delivered a total gross floor area of 442,482 sq.m. (2009: 254,430,sq.m.) of its properties.

The total contracted sales amount of RMB1,432.2 million (2009: RMB1,217.2 million) or gross floor area sold of 791,580 sq.m. (2009: 313,164 sq.m.) were also an exhilarating result for the year under review. This indicates that the Group will continue to leverage the economic growth in the Bohai Economic Rim to continue achieve rewarding results to the shareholders.

The Group has in the current year decided to hold certain commercial and apartment properties in *Tian Shan Waterside View (Phase IV)* and *Tian Shan Science and Technology Industrial Park* as investment properties for receiving rental income to gradually achieve a more balanced cash flow in the long run.

## PROSPECTS

With the listing of the shares of the Company on the Stock Exchange on 15 July 2010 (the "Listing") and the receipt of proceeds, net of Listing expenses, of approximately HK$325.4 million (equivalent to approximately RMB282.1 million) from the allotment and issuance of 250,000,000 shares of the Company, the Company had utilised RMB236.6 million of the Listing proceeds for the full redemption and payment of the outstanding principal amount of US$33.75 million and accrued interest of the US$90 million senior floating rate notes (the "senior notes") on 30 July 2010. For the remaining Listing proceeds of approximately RMB45.5 million, the Company had applied to the *Tianjin Tian Shan Wonderful Waterside View, Weihai Tian Shan Waterside View* and *Weihai Tian Shan International Enterprise Base* in the second half of 2010.

With a view to enhance the property value of the *Tianjin Tian Shan Wonderful Waterside View* and to attract more purchasers to the project, the Group will build a waterpark (the "Tianjin Waterpark") with a site area of 86,510.8 sq. m. as an ancillary entertainment facilities within the *Tianjin Tian Shan Wonderful Waterside View* which will be a landmark of Xiaozhan Town, Jinnan District, Tianjin. The directors believe that with the presence of the Tianjin Waterpark, which is planned to be open to the residents of *Tianjin Tian Shan Wonderful Waterside View* and the public with payment of admission fees, will enhance the overall landscaping and ancillary facilities of *Tianjin Tian Shan Wonderful Waterside View.* The Tianjin Waterpark is expected to complete in 2012. The directors are optimistic that the sales of *Tianjin Tian Shan Wonderful Waterside View (Phases I and II)* will boost in 2011 and 2012 due to the construction of Tianjin Waterpark.

# Management Discussion and Analysis

The directors consider that the bringing in of "leisure" and "tourism" elements into the residential and commercial property projects will be the future trend of property projects of the Group which will attract more purchasers to these projects and speed up their sales and in turn will improve the results of the Group.

The Group has leased a new office premises in Beijing and will relocate in 2011 to the new office for further expansion of its operations in the northern China and to attract more talents to join the Group.

The Group is committed to continue its successful track record in the development of quality residential and industrial property projects in the Bohai Economic Rim and in the coming future, will explore to enter other provinces with growth potential in China.

## FINANCIAL REVIEW

The Group's turnover increased by approximately 54.1% to approximately RMB1,159.9 million from RMB752.6 million as compared with the prior year. This was primarily due to the increased number of property projects completed and delivered to the customers. During the current year, the Group's turnover are principally from the sales and delivery of residential and industrial property projects, namely *Contemporary Noble Territory*, *Tianjin Tian Shan Wonderful Waterview View (Phase I)*, *Chengde Tian Shan Wonderful Waters View*, *New Great Earldom* and *Sanhe Tian Shan International Enterprise Base*. The increase in turnover was mainly attributable to more gross floor areas delivered during the year under review. In addition, the average selling price per sq. m. for the property projects were generally higher than that of year 2009.

# Management Discussion and Analysis

The cost of sales increased by approximately 55.4% to approximately RMB780.8 million from RMB502.4 million as compared with the prior year. The increase was mainly commensurate with the increase in the turnover during the year.

As a result of the foregoing, the amount of the gross profit increased significantly by 51.5% to approximately RMB379.1 million from RMB250.2 million. The gross profit margin for the current year was slightly decreased to approximately 32.7% as compared with 33.2% for the preceding year.

The Group's other income increased significantly to approximately RMB9.9 million from RMB2.0 million. The increase was mainly due to the receipt of a PRC local government subsidy of RMB5.0 million during the current year while no such subsidy was received in the prior year.

The Group's selling and marketing expenses increased by approximately 87.8% to RMB65.6 million from RMB34.9 million. The increase was primarily due to the increase in sales commission and advertising and promotion expenses. The increase in sales commission was in line with the increase in recognised sales revenue during the year. In addition, more advertising and promotion activities were carried out during the current year mainly for *Contemporary Noble Territory, Chengde Tian Shan Wonderful Waters View* and *Tianjin Tian Shan Wonderful Waterside View*.

The Group's administrative expenses increased by approximately 65.3% to RMB77.1 million from RMB46.6 million. The increase was primarily due to Listing related expenses of RMB9.1 million was charged and RMB2.0 million donation was made for the Qing Hai earthquake in April 2010. Other than the foregoing, there was increase in staff cost and the general administrative expenses because of the increase in number of new property projects commenced or to be commenced in the near future, namely *Weihai Tian Shan Waterside View, Weihai Tian Shan Contemporary Noble Territory*, and *Weihai Tian Shan International Enterprise Base*.

During the year, the Group had transferred from properties held for sales certain commercial properties in *Tian Shan Waterside View (Phase IV)* and certain apartments in *Tian Shan Science and Technology Industrial Park* as investment properties for rental income. According to the valuation by our valuers, Jones Lang LaSalle Sallmanns Limited, these investment properties are valued at RMB157.3 million and a fair value gain of RMB94.2 million was recorded in the current year.

The Group's income tax expense increased significantly by 157.8% to approximately RMB142.9 million from RMB55.4 million. The increase was primarily due to the increase in the Group's turnover during the current year and deferred tax provision of approximately RMB9.8 million was recorded for the revaluation of investment properties.

As a result of the above, the Group recorded a net profit of approximately RMB199.5 million as compared with preceding year of RMB130.0 million.

# Management Discussion and Analysis

## Current Assets and Liabilities

As at 31 December 2010, the Group had total current assets of approximately RMB3,397.4 million (2009: RMB2,626.2 million), comprising mainly inventories, trade and other receivables, and restricted cash and cash and cash equivalents.

As at 31 December 2010, the Group had total current liabilities of approximately RMB2,036.1 million (2009: RMB1,926.3 million), comprising mainly bank and other borrowings, trade and other payables and taxation.

As at 31 December 2010, the current ratio (calculated as the total current assets divided by the total current liabilities) was 1.7 (2009: 1.4). The improvement in the current ratio primarily reflects the repayment of senior notes and more capital expenditures spent to the property projects from the net proceeds from the Listing.

## Financial Resources, Liquidity and Gearing Ratio

The Group financed its property projects primarily through the shareholders equity, bank and other borrowings, and sales/pre-sales proceeds from completed properties/properties under development.

As at 31 December 2010, the gearing ratio (calculated as net debt divided by total equity) is as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Total bank and other borrowings | **665,280** | 739,739 |
| Less: Cash and cash equivalents | **(376,224)** | (178,376) |
| Net debt | **289,056** | 561,363 |
| Total equity | **1,128,558** | 568,029 |
| Gearing ratio | **0.26** | 0.99 |

The gearing ratio decreased from 0.99 to 0.26 was primarily due to the increase in total equity by the profit earned during the year of RMB199.5 million and the additional capital from the issue of new shares during the year of RMB358.2 million, combined with the effect of full repayment of senior notes during the year.

# Management Discussion and Analysis

## Charge on Assets

At 31 December 2010, assets of the Group secured against bank and other loans are analysed as follows:

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Properties held for future development for sale | **409,996** | 60,539 |
| Properties under development for sale | **844,265** | 1,200,716 |
| Completed properties held for sale | **30,715** | 40,376 |
| Investment properties | **157,323** | – |
| | **1,442,299** | 1,301,631 |

In addition, as of 31 December 2010, the Group had restricted cash of RMB43.0 million (2009: RMB60.7 million) deposited with certain banks as guarantee deposits against certain mortgage loan facilities granted by the banks to purchasers of the Group's properties.

## Employees' Remuneration and Benefits

As at 31 December 2010, the Group employed a total of 1,233 employees (31 December 2009: 600 employees). The compensation package of the employees includes basic salary and bonus which depends on the employee's actual achievement against target. In general, the Group offered competitive salary package, social insurance, pension scheme to its employees based on the current market salary levels. A share option scheme has also been adopted for employees of the Group.

## Foreign Exchange and Currency Risk

The Group's businesses are principally conducted in RMB, therefore, the Group does not expose to significant foreign currency exchange risks as of 31 December 2010 and the Group does not employ any financial instruments for hedging purposes.

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

# Management Discussion and Analysis

## Capital Expenditure

During the year, the Group incurred capital expenditure in the amount of approximately RMB1,404.8 million (2009: RMB1,092.1 million) comprising primarily land and development costs of property projects.

## Contingent Liabilities

Save for the guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties of RMB1,916.3 million (2009: RMB1,836.4 million), the Group had no material contingent liability as at 31 December 2010.

## Final Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

## Substantial Acquisition and Disposal

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

# Directors and Senior Management Biographies

## EXECUTIVE DIRECTORS

**Mr. WU Zhen Shan (吳振山)**, aged 54, is one of the founders of the Group. Mr. WU is the Chairman of the Group and was appointed as an executive Director on 10 June 2005 responsible for the development strategies, investment plans and human resources of our Company. Mr. WU is also the chairman of the remuneration committee and the nomination committee of our Board. In October 2000, Mr. WU, based on his experience in the industry, completed a two-year part-time master course and obtained the Certificate in Economic Management issued by Hebei University of Agriculture. Mr. WU has approximately 30 years of experience in the construction industry and approximately 10 years of experience in the property development industry. In 1980, Mr. WU together with Mr. ZHANG Zhen Hai established and worked in the Liucun Shengli Construction Team which principal business was construction of civil engineering projects for domestic and industrial uses until 1993. In 1993, Mr. WU together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company, which engaged in undertaking construction works until 1995. In 1995, Mr. WU together with other Founders established and worked in Shijiazhuang Hitech Industry Development Zone Diyi Construction and Engineering Company, which engaged in the construction and installation services of civil engineering projects for domestic and industrial uses until 2000, when Mr. WU together with other Founders established and worked in Tianshan Construction. In March 1987, Mr. WU was conferred the qualification of technician in construction by Zhengding Committee of Science and Technology. Mr. WU was accredited as a senior engineer of construction in October 1998 and a senior economist in November 2002 by The Title Reform Leading Group Office of Hebei Province. The accreditation of senior engineer of construction indicates the person has gained a certain level of experience by participation in construction projects of recognised scales in accordance with the State's requirements. The accreditation of senior economist indicates the person has participated in the operation and management of enterprises of certain scales in accordance with the State's requirements. Mr. WU serves as the standing committee member of China Real Estate Association, the vice chairman of Hebei Construction Association, a vice chairman of Hebei Province Entrepreneur Association, the vice chairman of Shijiazhuang Industry and Commerce Joint Association, a vice president of the Association of Real Estate in Shijiazhuang and a vice president of Hebei House and Real Estate Association. In February 2003, Mr. WU was elected as a representative of the Tenth National People's Congress and in January 2008, Mr. WU was elected as a representative of the Eleventh Hebei People's Congress. In April 2006, Mr. WU received the award of "Hebei Outstanding Entrepreneur" from the Hebei Province Entrepreneur Association. In September 2009, Mr. WU was awarded the "10 Most Outstanding Entrepreneurs in China in 2009" by China Enterprise Press. Mr. WU Zhen Shan is the elder brother of Mr. WU Zhen Ling and Mr. WU Zhen He, and the brother-in-law of Mr. ZHANG Zhen Hai.

# Directors and Senior Management Biographies

**Mr. WU Zhen Ling (吳振嶺)**, aged 46, is one of our Founders. Mr. WU is the Vice Chairman of our Group and was appointed as an executive Director on 10 June 2005 responsible for the operation, production, planning, design and management of our property projects. Mr. WU is also a member of the remuneration committee and the nomination committee of our Board. In October 2000, Mr. WU, based on his experience in the industry, completed a two-year part-time master course and obtained the Certificate in Economic Management issued by Hebei University of Agriculture. Mr. WU has approximately 25 years of experience in the construction industry and approximately 10 years of experience in the property development industry. In 1985, Mr. WU joined and worked in the Liucun Shengli Construction Team until 1993. In 1993, Mr. WU together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company. In 1995, Mr. WU together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company until 2000, when Mr. WU together with other Founders established and worked in Tianshan Construction. Since 1998, Mr. WU has been focusing on the property development business and working with Tian Shan Real Estate. Mr. WU was accredited as a senior engineer in October 1998 by The Title Reform Leading Group Office of Hebei Province. Mr. WU is the vice chairman of Hebei Construction Association Project Construction Quality Branch Association. Mr. WU Zhen Ling is the younger brother of Mr. WU Zhen Shan and elder brother of Mr. WU Zhen He, and the brother-in-law of Mr. ZHANG Zhen Hai.

**Mr. ZHANG Zhen Hai (張振海)**, aged 57, is one of our Founders and was appointed as an executive Director on 10 June 2005, responsible for overseeing the procurement of our construction materials. Mr. ZHANG is a tertiary graduate in construction from Shijiazhuang Public Officers' Institute of Technology in December 2000 and was accredited as senior engineer in December 2003 by The Title Reform Leading Group Office of Hebei Province. Mr. ZHANG has approximately 30 years of experience in the construction industry and approximately 10 years of experience in the property development industry. In 1980, Mr. ZHANG together with Mr. WU Zhen Shan established and worked in Liucun Shengli Construction Team until 1993. In 1993, Mr. ZHANG together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company. In 1995, Mr. ZHANG together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company until 2000, when Mr. ZHANG together with other Founders established and worked in Tianshan Construction. Since 1998, Mr. ZHANG has been focusing on the property development business and working with Tian Shan Real Estate. Mr. ZHANG Zhen Hai is the brother-in-law of Mr. WU Zhen Shan, Mr. WU Zhen Ling and Mr. WU Zhen He.

**Mr. WU Zhen He (吳振河)**, aged 39, is one of our Founders and was appointed as an executive Director on 10 June 2005, responsible for the operation and production of our property projects. Mr. WU has approximately 17 years of experience in the construction industry and 10 years of experience in the property development industry. In 1993 Mr. WU together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company. In 1995, Mr. WU together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company until 2000, when Mr. WU together with other Founders established and worked in Tianshan Construction. In October 2000, Mr. WU, based on his experience in the industry, completed a two-year part-time master course and obtained the Certificate in Economic Management issued by Hebei University of Agriculture. Mr. WU was accredited as a senior engineer in 2002 by The Title Reform Leading Group Office of Hebei Province. Mr. WU Zhen He is the younger brother of Mr. WU Zhen Shan and Mr. WU Zhen Ling, and the brother-in-law of Mr. ZHANG Zhen Hai.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. TIAN Chong Hou (田崇厚)**, aged 65, was appointed as an independent non-executive Director on 16 June 2010. Mr. TIAN is also a member of the audit committee, the remuneration committee and the nomination committee of our Board. Mr. TIAN has obtained a graduation certificate from the Department of Electrical and Power Engineering of Tianjin University for completing a five-year course in internal combustion engines which commenced in 1964. In 1996, Mr. TIAN worked as a professor of the enterprise management department of the Hebei University of Economics and Business. In 2000, Mr. TIAN was appointed as a tutor for postgraduate studies students in agricultural economics management by the Hebei University of Agriculture. Mr. TIAN has also been appointed as a counsellor of the Hebei provincial government from March 2007 to March 2012.

**Mr. WANG Ping (王平)**, aged 53, was appointed as an independent non-executive Director on 16 June 2010. Mr. WANG is also a member of the audit committee, the remuneration committee and the nomination committee of our Board. Mr. WANG has approximately 28 years of experience in the real estate industry. Since 1991, Mr. WANG has been working for the China Real Estate Association, and has been its vice chief secretary since 2006, and the vice president and chief secretary of its (Professional Committee of City Development*) since 2004. Mr. WANG completed tertiary education majoring in industrial enterprise economics management in Beijing Open University in 1986. Mr. WANG obtained a master degree in senior management personnel business administration from Tsinghua University in July 2008.

**Mr. CHEUNG Ying Kwan (張應坤)**, aged 51, was appointed as an independent non-executive Director on 16 June 2010. Mr. CHEUNG is also the chairman of the audit committee of the Board, and a member of the remuneration committee and the nomination committee of the Board. Mr. CHEUNG is a finance manager of Carling Technology Limited and has over 22 years of experience in financial management for a number of corporations and listed companies. Mr. CHEUNG has been an independent non-executive director of Woo Kee Hong Holdings Limited, a company listed on the Stock Exchange (stock code 00720), since November 2005. Mr. CHEUNG was admitted as a fellow of the Association of Chartered Certified Accountants in November 2000 and a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in April 1995.

# Directors and Senior Management Biographies

## SENIOR MANAGEMENT

**Mr. CHEUNG Siu Yiu (張少耀)**, aged 36, is the Chief Financial Officer and Company Secretary of our Company. Mr. CHEUNG graduated from the Hong Kong Baptist University with a bachelor's degree in business administration (Hons) in December 1997. Mr. CHEUNG was admitted as a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in February 2001, a member of the Institute of Chartered Accountants in England & Wales in October 2004, a fellow of the Association of Chartered Certified Accountants in September 2005 and a member of The Institute of Internal Auditors in February 2006. Mr. CHEUNG has over 13 years of experience in financial management and reporting.

**Mr. HAO Hui Guo (郝會國)**, aged 39, is currently a Vice President of Tian Shan Real Estate in charge of its production. Mr. HAO graduated from a three-year course in industrial and civil construction from Shijiazhuang Vocational Technology Institute, previously named Shijiazhuang University, in July 1996. In July 1996, Mr. HAO joined Tianshan Construction where he took part in and was in charge of various construction projects conducted by Tianshan Construction. In 2003, Mr. HAO was re-designated as the manager of the engineering department of Tian Shan Real Estate. From 2004, Mr. HAO has been a Vice President of Tian Shan Real Estate in charge of production. Mr. HAO was in charge of projects like Tian Shan Waterside View, Luancheng Tian Shan Wonderful Waters View and Tian Shan Guanlan Haoting. Mr. HAO has approximately seven years of experience in the construction industry from Tianshan Construction and six years of experience in the property development industry from Tian Shan Real Estate.

**Ms. GAO Li Xiang (高立香)**, aged 36, graduated from a four-year course in economics from Hebei University (河北大學) in June 1996 and was accredited as senior economist in November 2006 by the Title Reform Leading Group office of Hebei Province. Ms. GAO joined us in December 1998 as deputy general manager responsible for operations and has been a Vice President of Tian Shan Real Estate since 2003, responsible for its operation. Ms. GAO has approximately 11 years of experience in the property development industry from Tian Shan Real Estate.

**Ms. SI Jingxin (司景新)**, aged 30, has been a Vice President of Tian Shan Real Estate and is responsible for the formulation of strategies for fund-raising and other merger and acquisition transactions since May 2005. Ms. SI graduated from a four-year course in international economics and trade from Jingdezhen Ceramic Institute in July 2003 and was accredited as assistant economist by the Title Reform Leading Group Office of Shijiazhuang Hi-tech Industry Development Zone in December 2004. Ms. SI joined Tian Shan Real Estate in 2003 working at the president's office with the responsibilities to assist the president in organising investors' relations activities and liaising with government departments and industry organisations for various business events and activities.

# Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of integrity, transparency and accountability. The board of directors of the Company (the "Board") believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholders' value.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period from 15 July 2010 (the date of Listing) to 31 December 2010 (the "Review Period").

## BOARD COMPOSITION

The Board currently comprises four executive directors and three independent non-executive directors:

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

**Independent non-executive directors:**
Mr. TIAN Chong Hou
Mr. WANG Ping
Mr. CHEUNG Ying Kwan

Biographical details of the directors are set out on pages 15 to 18 of this annual report.

The Company has three independent non-executive directors, at least one of them has appropriate financial management expertise in compliance with the Listing Rules. The Company has received independence confirmations from all the independent non-executive directors and concluded that all of them are independent pursuant to the Listing Rules.

Details of the emoluments of the directors are set out in note 11 to the consolidated financial statements.

## PRINCIPAL FUNCTIONS

The Board has the ultimate decision on the Group's overall strategy, annual budget, annual and interim results, appointment or retirement of directors, significant contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the Company's management.

# Corporate Governance Report

Every director is entitled to have access to papers and related materials of the Board and has access to the advice and services of the Company Secretary. In addition, every director has separate and independent access to the Company's senior management to facilitate them to make informed decisions. All directors, in the discharge of their duties, are allowed to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

In order to achieve a high standard of corporate governance, the Board will normally hold four regularly meetings at approximately quarterly interval to discuss the overall strategy as well as the operational matters and financial performance of the Group.

### Board Meetings

The Company held one Board meeting during the Review Period to approve financial results for the interim report for the six months ended 30 June 2010 and all directors have attended.

### Appointment, Re-election and Removal of Directors

During the Review Period, there is no appointment, resignation or removal of Director.

One-third of the directors shall retire from office at every annual general meeting and all directors (including the independent non-executive directors) are subject to retirement by rotation once every three years in accordance with the Company's articles of association and the Corporate Governance Code.

## BOARD COMMITTEES

To strengthen the functions of the Board, there are several Board Committees namely, the Audit Committee, the Remuneration Committee and the Nomination Committee formed under the Board, with each performing different functions.

### Audit committee

Pursuant to Rule 3.21 of the Listing Rules, an audit committee was established by the Board on 16 June 2010 with written terms of reference in compliance with the Corporate Governance Code. The principal duties of the audit committee include the review of the Company's financial reporting procedure, internal controls and financial results of the Group. The audit committee comprises the three independent non-executive directors, namely Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan, and Mr. CHEUNG Ying Kwan is the chairman of the audit committee.

The audit committee held one meeting during the Review Period to review financial results for the interim report for the six months ended 30 June 2010 and all members of the audit committee have attended.

## Remuneration committee

The Board has established the remuneration committee on 16 June 2010 with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. The remuneration committee comprises two executive directors, namely Mr. WU Zhen Shan and Mr. WU Zhen Ling, and three independent non-executive directors, namely Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan. Mr. WU Zhen Shan is the chairman of the remuneration committee.

No meeting was held by the remuneration committee during the Review Period.

## Nomination committee

The Board established the nomination committee on 16 June 2010 with written terms of reference in compliance with the Corporate Governance Code. The primary duty of the nomination committee is to make recommendations to the Board on the appointment of directors and senior management. The nomination committee comprises two executive directors, namely Mr. WU Zhen Shan and Mr. WU Zhen Ling, and three independent non-executive directors, namely Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan. Mr. WU Zhen Shan is the chairman of the nomination committee.

No meeting was held by the nomination committee during the Review Period.

## External auditors

The Company has appointed KPMG as the independent external auditors. The remuneration paid or payable to the external auditors for statutory audit is RMB2,855,000.

In addition, the remuneration paid or payable to the external auditors in respect of the services in relation to IPO of the Company amounted to HK$4,180,000. There were no other non-audit services rendered by the external auditors during the Review Period.

## Accountability and audit

The directors acknowledge their responsibility for preparing the Group's consolidated financial statements for the year ended 31 December 2010 in accordance with the International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

The reporting responsibilities of the independent external auditors are set out on pages 32 and 33 of this annual report.

# Corporate Governance Report

## Internal control

During the Review Period, the Board has reviewed the effectiveness of the internal control system of the Group. The review covers all significant controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control aspects of any significant problems were noted. The Board was satisfied that the internal control system of the Group has been functioned effectively during the Review Period.

## Securities transactions by directors

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

The Company confirms that, having made specific enquiry of all the Directors, all Directors have complied with the required standards as set out in the Model Code throughout the Review Period.

## Communication with shareholders

All shareholders of the Company have the right to attend general meetings of the Company to participate in and vote for all significant matters of the Company in accordance with the Company's articles of association.

Information of the Company and the Group are also delivered to its shareholders through a number of channels, which includes annual report, interim report, announcements, etc. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

# Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2010.

## Principal activities

The principal activity of the Company is investment holding. The Group is principally engaged in the development and sale of properties in the People's Republic of China. Details of the principal activities of its subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## Results and dividends

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 98. The directors do not recommend the payment of a final dividend in respect of the year.

## Summary financial information

A summary of the published results and assets, and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements is set out on pages 101 and 102. This summary does not form part of the audited financial statements.

## Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 100.

## Share capital and share options

Details of movements in the share capital and share options of the Company during the year are set out in notes 21 and 23 to the financial statements, respectively.

## Pre-emptive rights

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

## Purchase, redemption or sale of listed securities of the Company

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

# Report of the Directors

## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 22(g) to the financial statements and in the consolidated statement of changes in equity, respectively.

## Distributable reserves

At 31 December 2010, the Company's reserves (including the share premium account) available for distribution, calculated in accordance with the provisions of the Companies Law (2009 Revision) of the Cayman Islands, amounted to RMB85,250,000.

## Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 4.7% of the total sales for the year and sales to the largest customer included therein accounted for 1.2% of the total sales.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

During the year ended 31 December 2010, the purchase from the Group's five largest suppliers accounted for 27.0% of the total purchases for the year and purchases from the largest supplier, being Hebei Tianshan Industrial Group Construction Engineering Company Limited (a company established in China and is connected person of the Company under the Listing Rules, "Tianshan Construction"), included therein accounted for 20.2% of the total purchases.

Save for Tianshan Construction, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

## Directors

The directors of the Company during the year were:

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

**Independent non-executive directors:**
Mr. TIAN Chong Hou (appointed on 16 June 2010)
Mr. WANG Ping (appointed on 16 June 2010)
Mr. CHEUNG Ying Kwan (appointed on 16 June 2010)

In accordance with article 108 of the Company's articles of association, Mr. WU Zhen Shan, Mr. WU Zhen Ling, Mr. ZHANG Zhen Hai and Mr. WU Zhen He will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors have been appointed for an initial term of three years, but are subject to retirement by rotation pursuant to the Company's articles of association.

The Company has received annual confirmations of independence from Mr. TING Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan and as at the date of this report still considers them to be independent.

## Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 18 of the annual report.

## Directors' service contracts

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. In addition, the directors' remuneration is reviewed by the Remuneration Committee annually.

## Directors' interests in contracts

Other than those disclosed in the section headed "Connected Transactions" of the prospectus of the Company dated 30 June 2010, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## Interests and short positions of the directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2010, the interests and short positions of the directors and/or chief executives of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, chapter 571 of the laws of Hong Kong ("SFO") which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to Section

352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

## 1. Interests in the Company

### *(a) Shares*

| Name of Director | Nature of interest | No. of Shares | Percentage of issued share capital of the Company |
|---|---|---|---|
| WU Zhen Shan | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.0% |
| WU Zhen Ling | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.0% |
| ZHANG Zhen Hai | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.0% |
| WU Zhen He | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.0% |

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

### *(b) Options*

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

Notes:

1. The options are granted to XU Lan Ying, the spouse of WU Zhen Shan, under the pre-IPO share option scheme adopted by the Company on 16 June 2010 (the "Pre-IPO Share Option Scheme").

2. The options are granted to FAN Yi Mei, the spouse of WU Zhen Ling, under the Pre-IPO Share Option Scheme.

3. The options are granted to WU Lan Zhi, the spouse of ZHANG Zhen Hai, under the Pre-IPO Share Option Scheme.

4. The options are granted to GU Jing Gai, the spouse of WU Zhen He, under the Pre-IPO Share Option Scheme.

### 2. Interest in associated corporations

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

Save as disclosed above, as at 31 December 2010, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2010, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions:*

| Name of shareholder of the Company | Nature of interest | Number of shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Neway Enterprises | Beneficial | 750,000,000 | 75.00% |
| Hebei International Investments Limited ("Hebei International") | Beneficial | 99,998,000 | 9.99% |
| Hebei Province Construction & Investment Group Co., Ltd. ("Hebei Province Construction") | Interest of a controlled corporation | 99,998,000 (note) | 9.99% |

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

# Report of the Directors

Save as disclosed above, as at 31 December 2010, no person, other than the directors of the Company, whose interests are set out in the section "Interests and short positions of the directors and the chief executive in shares, underlying share and debentures of the Company and its associated corporations" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

## Pre-IPO share option scheme

On 16 June 2010, the Company adopted the Pre-IPO Share Option Scheme and on the same date, options to subscribe for an aggregate of 6,000,000 shares of the Company have been granted. The options can be exercised up to a period of 10 years from the date of the grant. Further details of the terms of the Pre-IPO Share Option Scheme are disclosed in the note 23 to the financial statements.

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

| Name or category of participant | At 1 January 2010 | Grant during the year | Exercised during the year | Forfeited during the year | At 31 December 2010 | Date of grant | Exercise period of the share options (note f) | Exercise price of share options (HK$ per share) |
|---|---|---|---|---|---|---|---|---|
| **Connected persons** | | | | | | | | |
| WU Lan Zhi (note a) | – | 191,000 | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| XU Lan Ying (note b) | – | 191,000 | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| FAN Yi Mei (note c) | – | 191,000 | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| GU Jing Gai (note d) | – | 191,000 | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| WU Lan Ping (note e) | – | 191,000 | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| | – | 955,000 | – | – | 955,000 | | | |
| **Other employees** | | | | | | | | |
| In aggregate | – | 5,045,000 | – | 100,000 | 4,945,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| Total | – | 6,000,000 | – | 100,000 | 5,900,000 | | | |

Notes:

(a) WU Lan Zhi is the elder sister of WU Zhen Shan, WU Zhen Ling and WU Zhen Hai and the spouse of ZHANG Zhen Hai. The interest was also disclosed as an interest of ZHANG Zhen Hai in the section "Directors' and the chief executives interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above.

(b) XU Lan Ying is the spouse of WU Zhen Shan. The interest was also disclosed as an interest of WU Zhen Shan in the section "Directors' and the chief executives interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above.

(c) FAN Yi Mei is the spouse of WU Zhen Ling. The interest was also disclosed as an interest of WU Zhen Ling in the section "Directors' and the chief executives interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above.

(d) GU Jing Gai is the spouse of WU Zhen He. The interest was also disclosed as an interest of WU Zhen He in the section "Directors' and the chief executives interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" above.

(e) WU Lan Ping is the younger sister of WU Zhen Shan, WU Zhen He and WU Zhen Hai.

(f) Each grantee is entitled to exercise up to 10% of the share options granted to him/her each year after the expiry of six months from date of the Listing. Options which become exercisable in the relevant year are not exercised can be exercised in any of the subsequent years in whole or in part.

### Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions in writing of the then sole shareholder of the Company on 16 June 2010. Since the Share Option Scheme has become effective upon the Company's Listing on 15 July 2010, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the year under review and there were no outstanding share options under the Share Option Scheme as at 31 December 2010.

## CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions with its connected persons as defined in the Listing Rules and which are subject to disclosure requirements under Chapter 14A of the Listing Rules. These continuing connected transactions which also constitute related party transactions are set out in note 31 to the financial statements.

### a. Transactions with Tianshan Doors and Windows

On 16 June 2010, the Group entered into a framework services agreement with Hebei Tianshan Doors and Windows Installation Company Limited (a limited liability company established in the PRC, "Tianshan Doors and Windows") (the "Installation Services Agreement"), pursuant to which Tianshan Doors and Windows agreed to provide doors and windows installation and related services for the Group's property projects. The Installation Services Agreement is effective from the Listing date up to 31 December 2011.

# Report of the Directors

Tianshan Doors and Windows is ultimately wholly-owned by Mr. Wu Zhen Shan, Mr. Wu Zhen Ling, Mr. Zhang Zhen Hai and Mr. Wu Zhen He, directors of the Company, and therefore a connected person of the Company under the Listing Rules. Therefore, the installation and related services provided by Tianshan Doors and Windows to the Group constitutes continuing connected transactions of the Company.

For the year ended 31 December 2010, the annual cap for the continuing connected transaction under the Installation Services Agreement is RMB9.0 million and the actual transacted amount was RMB8.8 million.

## b. Transactions with Tianshan Construction

On 16 June 2010, the Group entered into a framework services agreement with Hebei Tianshan Industrial Group Construction Engineering Company Limited (a limited liability company established in the PRC, "Tianshan Construction") (the "Construction Services Agreement"), pursuant to which Tianshan Construction agreed to provide construction work and services for the Group's real estate development projects through a tender process in compliance with the applicable laws and regulations. The Construction Services Agreement is effective from the Listing date up to 31 December 2011.

Tianshan Construction is ultimately wholly-owned by Mr. Wu Zhen Shan, Mr. Wu Zhen Ling, Mr. Zhang Zhen Hai and Mr. Wu Zhen He, directors of the Company, and therefore a connected person of the Company under the Listing Rules. Therefore, the construction work and services provided by Tianshan Construction to the Group constitutes continuing connected transactions of the Company.

For the year ended 31 December 2010, the annual cap for the continuing connected transaction under the Construction Services Agreement is RMB270.6 million and the actual transacted amount was RMB269.0 million.

The directors (including the independent non-executive directors) are of the view that the installation and related services and construction work and services provided by Tianshan Doors and Windows and Tianshan Construction, respectively, are in the ordinary and usual course of business and are conducted on normal commercial terms and are commercially fair and reasonable and in the interests of the shareholders and the Company as a whole.

In accordance with the requirement of Rule 14A.38 of the Listing Rules, the Company has engaged the external auditors of the Company to conduct certain procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have provided a letter to the board of directors confirming that:

a. nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the prospectus of the Company dated 30 June 2010 in respect of each of the continuing connected transactions.

## Contingent liabilities

Details of the contingent liabilities of the Group are set out in note 30 to the financial statements.

## Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## Auditors

KPMG retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
**Tian Shan Development (Holding) Limited**

**Wu Zhen Shan**
*Chairman*

28 March 2011

# Independent Auditor's Report

**Independent auditor's report to the shareholders of**
**Tian Shan Development (Holding) Limited**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Tian Shan Development (Holding) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 34 to 98, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

## AUDITOR'S RESPONSIBILITY *(Continued)*

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2011

# Consolidated Income Statement

*for the year ended 31 December 2010*
*(Expressed in Renminbi)*

| | Note | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Turnover** | 4 | **1,159,854** | 752,592 |
| Cost of sales | | **(780,783)** | (502,391) |
| **Gross profit** | | **379,071** | 250,201 |
| Other income | 5 | **9,937** | 2,017 |
| Selling and marketing expenses | | **(65,647)** | (34,949) |
| Administrative expenses | | **(77,098)** | (46,638) |
| **Profit from operations** | | **246,263** | 170,631 |
| Net change in fair value of derivative financial instruments | | **–** | 21,301 |
| Finance income | | **2,206** | 886 |
| Finance expenses | | **(296)** | (7,366) |
| **Net financing income** | 6(a) | **1,910** | 14,821 |
| **Profit before change in fair value of investment properties and income tax** | | **248,173** | 185,452 |
| Increase in fair value of investment properties | 15 | **94,201** | – |
| **Profit before taxation** | 6 | **342,374** | 185,452 |
| Income tax | 7 | **(142,883)** | (55,414) |
| **Profit for the year** | | **199,491** | 130,038 |
| **Earnings per share (RMB cents)** | 9 | | |
| Basic | | **23.95** | 18.91 |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Comprehensive Income

*for the year ended 31 December 2010*
*(Expressed in Renminbi)*

| | Note | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **199,491** | 130,038 |
| **Other comprehensive income for the year** | 10 | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | **1,782** | (14) |
| **Total comprehensive income for the year** | | **201,273** | 130,024 |

The accompanying notes form part of these financial statements.

# Consolidated Balance Sheet

*at 31 December 2010*
*(Expressed in Renminbi)*

| | Note | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **23,869** | 19,928 |
| Investment properties | 15 | **157,323** | – |
| Deferred tax assets | 7(d) | **37,341** | 30,591 |
| | | **218,533** | 50,519 |
| **Current assets** | | | |
| Inventories | 17 | **2,628,568** | 2,085,709 |
| Trade and other receivables | 18 | **349,638** | 301,445 |
| Restricted cash | 19 | **42,957** | 60,700 |
| Cash and cash equivalents | 20 | **376,224** | 178,376 |
| | | **3,397,387** | 2,626,230 |
| **TOTAL ASSETS** | | **3,615,920** | 2,676,749 |
| **EQUITY** | | | |
| Share capital | 21 | **86,731** | 160 |
| Reserves | 22 | **1,041,827** | 567,869 |
| **SHAREHOLDERS' EQUITY** | | **1,128,558** | 568,029 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank loans – secured | 24 | **269,900** | 163,000 |
| Other loans – secured | 25 | **152,080** | – |
| Deferred tax liabilities | 7(d) | **29,233** | 19,400 |
| | | **451,213** | 182,400 |

# Consolidated Balance Sheet

*at 31 December 2010*
*(Expressed in Renminbi)*

| | Note | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Bank loans – secured | 24 | **93,300** | 267,937 |
| Other loans – secured | 25 | **150,000** | – |
| Senior notes | 26 | **–** | 308,802 |
| Trade and other payables | 27 | **1,669,110** | 1,283,383 |
| Current taxation | 7(c) | **123,739** | 66,198 |
| | | **2,036,149** | 1,926,320 |
| **TOTAL LIABILITIES** | | **2,487,362** | 2,108,720 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,615,920** | 2,676,749 |
| **NET CURRENT ASSETS** | | **1,361,238** | 699,910 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,579,771** | 750,429 |

Approved and authorised for issue by the board of directors on 28 March 2011.

**Wu Zhen Shan**
*Executive director*

**Wu Zhen Ling**
*Executive director*

The accompanying notes form part of these financial statements.

# Balance Sheet

*at 31 December 2010*
*(Expressed in Renminbi)*

| | Note | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current asset** | | | |
| Interest in subsidiaries | 16 | **169,733** | 152,725 |
| **Current assets** | | | |
| Other receivables | 18 | **2,061** | 4,163 |
| Cash and cash equivalents | 20 | **2,956** | 9,072 |
| | | **5,017** | 13,235 |
| **TOTAL ASSETS** | | **174,750** | 165,960 |
| **EQUITY** | | | |
| Share capital | 21 | **86,731** | 160 |
| Reserves | 22(g) | **85,250** | (145,983) |
| **TOTAL EQUITY** | | **171,981** | (145,823) |
| **Current liabilities** | | | |
| Senior notes | 26 | **–** | 308,802 |
| Other payables | 27 | **2,769** | 2,981 |
| | | **2,769** | 311,783 |
| **TOTAL LIABILITIES** | | **2,769** | 311,783 |
| **TOTAL EQUITY AND LIABILITIES** | | **174,750** | 165,960 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **2,248** | (298,548) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **171,981** | (145,823) |

Approved and authorised for issue by the board of directors on 28 March 2011.

**Wu Zhen Shan**
*Executive director*

**Wu Zhen Ling**
*Executive director*

The accompanying notes form part of these financial statements.

# Consolidated Statement of Changes in Equity

*for the year ended 31 December 2010*
*(Expressed in Renminbi)*

| | Note | Attributable to equity holders of the Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RMB'000 (note 21) | Share premium RMB'000 (note 22(a)) | Exchange reserve RMB'000 (note 22(b)) | Other capital reserve RMB'000 (note 22(c)) | PRC statutory reserve RMB'000 (note 22(d)) | Share-based compensation reserve RMB'000 (note 22(e)) | Retained profits RMB'000 | Total RMB'000 |
| **At 1 January 2010** | | **160** | **–** | **47,366** | **110,070** | **95,956** | **–** | **314,477** | **568,029** |
| **Changes in equity for 2010** | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 199,491 | 199,491 |
| Other comprehensive income | 10 | – | – | 1,782 | – | – | – | – | 1,782 |
| **Total comprehensive income** | | **–** | **–** | **1,782** | **–** | **–** | **–** | **199,491** | **201,273** |
| Capitalisation issue | 21(b) | 59,480 | (59,480) | – | – | – | – | – | – |
| Mandatory conversion of senior notes | 21(c) | 5,414 | 70,671 | – | – | – | – | – | 76,085 |
| Issue of new shares, net of listing expenses | 21(d) | 21,677 | 260,443 | – | – | – | – | – | 282,120 |
| Transfer to statutory reserve | | – | – | – | – | 23,016 | – | (23,016) | – |
| Equity settled share-based payment | | – | – | – | – | – | 1,051 | – | 1,051 |
| **At 31 December 2010** | | **86,731** | **271,634** | **49,148** | **110,070** | **118,972** | **1,051** | **490,952** | **1,128,558** |

| | Attributable to equity holders of the Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 21) | Share premium RMB'000 (note 22(a)) | Exchange reserve RMB'000 (note 22(b)) | Other capital reserve RMB'000 (note 22(c)) | PRC statutory reserve RMB'000 (note 22(d)) | Share-based compensation reserve RMB'000 (note 22(e)) | Retained profits RMB'000 | Total RMB'000 |
| **At 1 January 2009** | 160 | – | 47,380 | 110,070 | 82,772 | – | 197,623 | 438,005 |
| **Changes in equity for 2009** | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 130,038 | 130,038 |
| Other comprehensive income | – | – | (14) | – | – | – | – | (14) |
| **Total comprehensive income** | – | – | (14) | – | – | – | 130,038 | 130,024 |
| Transfer to statutory reserve | – | – | – | – | 13,184 | – | (13,184) | – |
| **At 31 December 2009** | 160 | – | 47,366 | 110,070 | 95,956 | – | 314,477 | 568,029 |

The accompanying notes form part of these financial statements.

# Consolidated Cash Flow Statement

*for the year ended 31 December 2010*
*(Expressed in Renminbi)*

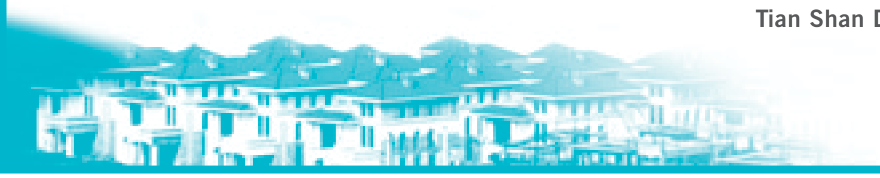
| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **342,374** | 185,452 |
| Adjustments for: | | |
| Depreciation and amortisation | **5,210** | 4,295 |
| Equity settled share-based payment expenses | **1,051** | – |
| Gain on disposal of property, plant and equipment | **(265)** | (299) |
| Net change in fair value of derivative financial instruments | **–** | (21,301) |
| Increase in fair value of investment properties | **(94,201)** | – |
| Exchange (gain)/loss | **(1,120)** | 3 |
| Finance income | **(1,086)** | (886) |
| Net interest expense | **296** | 7,363 |
| Changes in working capital: | | |
| Increase in inventories | **(551,497)** | (112,977) |
| Increase in trade and other receivables | **(48,193)** | (141,611) |
| Decrease/(increase) in restricted cash | **17,743** | (18,364) |
| Increase in trade and other payables | **387,526** | 366,806 |
| **Cash generated from operations** | **57,838** | 268,481 |
| Tax paid | | |
| – PRC tax paid | **(82,259)** | (47,409) |
| **Net cash (used in)/generated from operating activities** | **(24,421)** | 221,072 |
| **Investing activities** | | |
| Payments for the purchase of property, plant and equipment | **(9,399)** | (11,296) |
| Proceeds from disposal of property, plant and equipment | **513** | 1,329 |
| Interest received | **1,086** | 886 |
| **Net cash used in investing activities** | **(7,800)** | (9,081) |

# Consolidated Cash Flow Statement

*for the year ended 31 December 2010*
*(Expressed in Renminbi)*

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Financing activities** | | |
| Net proceeds from issue of new shares | **282,120** | – |
| Repayment of senior notes | **(228,474)** | (245,880) |
| Proceeds from new bank loans | **296,500** | 235,000 |
| Proceeds from new other loans | **302,080** | – |
| Repayment of bank loans | **(368,300)** | (104,720) |
| Advance to related parties | **–** | (18,383) |
| Interest paid | **(54,143)** | (53,168) |
| **Net cash generated from/(used in) financing activities** | **229,783** | (187,151) |
| **Net increase in cash and cash equivalents** | **197,562** | 24,840 |
| **Cash and cash equivalents at 1 January** | **178,376** | 154,086 |
| **Effect of foreign exchange rate changes** | **286** | (550) |
| **Cash and cash equivalents at 31 December** | **376,224** | 178,376 |

The accompanying notes form part of these financial statements.



# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 CORPORATE INFORMATION

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments (see note 2(d)) and investment properties (see note 2(e)), which are stated at their fair value.

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of uncertainty are discussed in note 32.

### (c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)).

### (d) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of reporting period and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(g)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(g).

### (f) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(h)):

– buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 2(g)); and

– other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line basis over their estimated useful lives as follows:

| | | |
|---|---|---|
| – | Buildings situated on leasehold land | Over the shorter of the unexpired term of lease and their estimated useful life, being 30 years after the date of completion |
| – | Leasehold improvement | 5 years |
| – | Plant and machinery | 8 years |
| – | Furniture, fixtures and equipment | 5 – 8 years |
| – | Motor vehicles | 8 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(e)); and

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Leased assets *(Continued)*

#### *(i) Classification of assets leased to the Group (Continued)*

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### *(ii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term, except where the property is classified as an investment property (see note 2(e)) or is held for development for sale (see note 2(i)).

### (h) Impairment of assets

#### *(i) Impairment of trade and other receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

*(Expressed in Renminbi unless otherwise indicated)*

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (h) Impairment of assets *(Continued)*

### *(i) Impairment of trade and other receivables* *(Continued)*

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bill receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequently recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– investments in subsidiaries;

– property, plant and equipment; and

– pre-paid interests in leasehold land classified as being held under an operating lease.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Impairment of assets *(Continued)*

#### *(ii) Impairment of other assets (Continued)*

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and (ii)).

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Inventories

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– *Properties held for future development and under development for sale*

The cost of properties held for future development and under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses and borrowing costs capitalised (see note 2(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– *Completed properties held for sale*

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the properties to their present location and condition.

### (j) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of design. The accounting policy for contract revenue is set out in note 2(s)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability under "Trade and other payables".

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (l) Senior notes with detachable warrants

Senior notes of the Company are issued with detachable warrants. Where the warrants issued by the Company will be settled by exchange of the warrants and fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, senior notes with detachable warrants are accounted for as compound financial instruments which contain a liability component (senior notes) and an equity component (warrants).

The senior notes are initially measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have detachable warrants, less the derivatives embedded to the senior notes. The derivatives embedded are accounted for in accordance with the accounting policy set out in note 2(d). The warrants are recognised as the excess of proceeds over the amount initially recognised as the senior notes and the embedded derivatives. Transaction costs that relate to the issuance of the senior notes with detachable warrants are allocated to senior notes and warrants in proportion to the allocation of proceeds.

The senior notes are subsequently carried at amortised cost. The interest expense recognised in profit or loss on the senior notes is calculated using the effective interest method. The warrants are recognised in warrant reserve in equity until they are exercised. If the warrants are exercised, the warrant reserve, together with the proceeds received at the time of exercise, is transferred to share capital and share premium as consideration for shares issued. If warrants are not exercised upon expiry, the warrant reserve is released directly to retained profits.

When the terms of warrants change so that they no longer meet the definition of equity, the fair value of the warrants is remeasured and recognised as derivative financial instruments at the date of change of terms, with a corresponding adjustment to the warrant reserve. The warrants are subsequently accounted for in accordance with the accounting policy set out in note 2(d). The remaining balance of warrant reserve is transferred to retained profits.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (p) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labor rules and regulations in the PRC and Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed in the period in which they are incurred, except to the extent that they are included in properties under development for sale not yet recognised as an expense.

#### *(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Employee benefits *(Continued)*

#### *(ii) Share-based payments (Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

*(iii)* Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (r) Financial guarantees issued, provisions and contingent liabilities

#### *(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (r) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

### *(i) Financial guarantees issued (Continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

### *(ii) Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

## (s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

### *(i) Sale of properties*

Revenue arising from the sale of properties is recognised when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax or other sales related taxes and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as receipts in advance.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Revenue recognition *(Continued)*

#### *(i) Sale of properties (Continued)*

Revenue from instalment sales is recognised by discounting the instalments receivable at the imputed rate of interest to present value. The interest element is recognised as it is earned using the effective interest method.

#### *(ii) Contract revenue*

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

#### *(iii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

#### *(iv) Interest income*

Interest income is recognised as it accrues using the effective interest method.

#### *(v) Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate for expenses incurred in a previous period is recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the assets.

*(Expressed in Renminbi unless otherwise indicated)*

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

## (u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Related parties

For the purposes of the financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

*(Expressed in Renminbi unless otherwise indicated)*

## 3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these the following developments are relevant to the Group's financial statements:

– IFRS 3 (revised 2008), *Business combinations*

– Amendments to IAS 27, *Consolidated and separate financial statements*

The above developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

– The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

– The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to IAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under IAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group decided to adopt the amendments early.

As a result of early adoption of the amendments to IAS 12, the Group measures deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the reporting date. This change in policy does not have impact on the comparative periods as the Group did not have investment properties in previous periods.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 4 TURNOVER

The principal activity of the Group is property development.

Turnover represents income from sales of properties and revenue from construction contracts. The amount of each significant categories of revenue recognised in turnover during the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Income from sales of properties | **1,145,451** | 693,862 |
| Revenue from construction contracts | **14,403** | 58,730 |
| | **1,159,854** | 752,592 |

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

The Group's customer base is diversified and none of the customers of the Group with whom transactions have exceeded 10% of the Group's revenue.

## 5 OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Gross rental income | **2,730** | 1,335 |
| Gain on disposal of property, plant and equipment | **265** | 299 |
| Government subsidy (Note) | **5,000** | – |
| Others | **1,942** | 383 |
| | **9,937** | 2,017 |

Note: The government subsidy was in form of tax refunds to a subsidiary of the Group from local government for encouragement of developments in such district.

*(Expressed in Renminbi unless otherwise indicated)*

# 6 PROFIT BEFORE TAXATION

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

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| **(a) Net financing income** | | |
| Net change in fair value of derivative financial instruments | – | (21,301) |
| Interest income (note (i)) | (1,086) | (886) |
| Exchange gain | (1,120) | – |
| Finance income | (2,206) | (886) |
| Interest expense and other borrowing costs on loans and borrowings wholly repayable within five years (note (i)) | 54,780 | 117,845 |
| Less: Interest capitalised (note (ii)) | (54,484) | (110,482) |
| Net interest expense | 296 | 7,363 |
| Exchange loss | – | 3 |
| Finance expenses | 296 | 7,366 |
| Net financing income | (1,910) | (14,821) |

Notes:

(i) All interest income and expense are arisen from financial assets/liabilities not at fair value through profit or loss.

(ii) Borrowing costs have been capitalised as an average rate of 6.4% per annum (2009: 15.1% per annum).

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 6 PROFIT BEFORE TAXATION *(Continued)*

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| **(b) Staff costs** | | |
| Wages, salaries and other staff costs | **28,756** | 18,882 |
| Contributions to retirement benefits scheme | **927** | 485 |
| Equity settled share-based payment expenses (note 23) | **1,051** | – |
| | **30,734** | 19,367 |

Except for the above, staff cost of RMB17,577,000 (2009: RMB6,893,000), including contributions to retirement benefits scheme of RMB632,000 (2009: RMB199,000), are capitalised into properties held for future development and under development.

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also maintains Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee up to a cap of monthly relevant income of HK$20,000 and in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

The Group has no other material obligation for the payment of retirement benefits associated with these schemes beyond the annual contributions described above.

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| **(c) Other items** | | |
| Depreciation and amortisation | **5,210** | 4,295 |
| Auditors' remuneration | **2,855** | 2,893 |
| Gain on disposal of property, plant and equipment | **(265)** | (299) |
| Reversal of provision for impairment losses on other receivables | **(5,000)** | – |
| Operating lease charges on hire of property | **1,017** | 1,283 |
| Gross rental income less direct outgoings | **(2,593)** | (1,268) |

*(Expressed in Renminbi unless otherwise indicated)*

# 7 INCOME TAX

## (a) Income tax in the consolidated income statement represents:

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| **Current tax** | | |
| PRC Corporate Income Tax (note 7(c)) | **66,302** | 45,204 |
| Land Appreciation Tax (note 7(c)) | **73,498** | 21,749 |
| | **139,800** | 66,953 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 7(d)) | **3,083** | (11,539) |
| | **142,883** | 55,414 |

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

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

### *(iii) PRC Corporate Income Tax ("CIT")*

The provision for CIT is based on the respective applicable rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

Certain subsidiaries of the Group were subject to CIT calculated based on the deemed profit which represents 13% to 15% (2009: 13%) of their revenue in accordance with the authorised taxation method (核定徵收) pursuant to the applicable PRC tax regulations. The tax rate was 25% (2009: 25%) on the deemed profit. Other PRC subsidiaries of the Group, which were subject to the audited taxation method (查賬徵收), were charged CIT at a rate of 25% (2009: 25%) on estimated assessable profits for the year.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 7 INCOME TAX *(Continued)*

### (a) Income tax in the consolidated income statement represents: *(Continued)*

#### *(iv) PRC Land Appreciation Tax ("LAT")*

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

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

The Directors are of the opinion that the authorised tax valuation method is one of the allowable taxation methods in the PRC and the respective local tax bureaus are the competent tax authorities to approve the authorised tax valuation method in charging CIT and LAT to the respective PRC subsidiaries of the Group, and the risk of being challenged by the State Tax Bureau or any tax bureau of higher authority is remote.

#### *(v) Withholding tax*

Withholding taxes are levied on the non PRC-resident entities in respect of dividend distribution arising from profit of PRC subsidiaries earned after 1 January 2008 at a rate of 10%. No deferred tax liabilities were recognized for the undistributed earnings of the Group's PRC subsidiaries earned for the year ended 31 December 2010 since it is not probable that they will be distributed to their immediate holding company outside PRC in the foreseeable future.

*(Expressed in Renminbi unless otherwise indicated)*

# 7 INCOME TAX *(Continued)*

## (b) Reconciliation between tax expense and accounting profit before taxation at applicable tax rates:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Profit before taxation | **342,374** | 185,452 |
| Notional tax on profit before taxation calculated at the rates applicable to the jurisdictions concerned | **87,308** | 46,363 |
| Non-taxable income | **(316)** | (5,325) |
| Non-deductible expenses | **18,371** | 5,960 |
| Withholding tax on earnings distributable by the PRC foreign investment enterprises | **–** | 6,743 |
| Land Appreciation Tax | **73,498** | 21,749 |
| Tax effect of Land Appreciation Tax | **(18,374)** | (5,438) |
| Tax effect of adopting authorised taxation method | **(17,604)** | (14,638) |
| Actual tax expense | **142,883** | 55,414 |

## (c) Current taxation in the consolidated balance sheet represents:

| | **The Group** | |
|---|---|---|
| | **2010** **RMB'000** | 2009 RMB'000 |
| **PRC Corporate Income Tax** | | |
| At 1 January | **17,757** | 5,584 |
| Charged to profit or loss (note 7(a)) | **66,302** | 45,204 |
| Tax paid | **(48,607)** | (33,031) |
| At 31 December | **35,452** | 17,757 |
| **Land Appreciation Tax** | | |
| At 1 January | **48,441** | 41,070 |
| Charged to profit or loss (note 7(a)) | **73,498** | 21,749 |
| Tax paid | **(33,652)** | (14,378) |
| At 31 December | **88,287** | 48,441 |
| Total | **123,739** | 66,198 |

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 7 INCOME TAX *(Continued)*

### (d) Deferred tax assets/(liabilities)

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **Revaluation of properties** RMB'000 | **Pre-sale of properties** RMB'000 | **Withholding tax** RMB'000 | **Total** RMB'000 |
| At 1 January 2009 | – | 12,309 | (12,657) | (348) |
| Credited/(charged) to the profit or loss (note 7(a)) | – | 18,282 | (6,743) | 11,539 |
| At 31 December 2009 | – | 30,591 | (19,400) | 11,191 |
| At 1 January 2010 | – | 30,591 | (19,400) | 11,191 |
| (Charged)/credited to the profit or loss (note 7(a)) | (9,833) | 6,750 | – | (3,083) |
| At 31 December 2010 | (9,833) | 37,341 | (19,400) | 8,108 |

*Representing:*

| | **2010** RMB'000 | 2009 RMB'000 |
|---|---|---|
| Deferred tax assets | **37,341** | 30,591 |
| Deferred tax liabilities | **(29,233)** | (19,400) |
| | **8,108** | 11,191 |

*(Expressed in Renminbi unless otherwise indicated)*

## 8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB38,736,000 (2009: loss of RMB76,201,000) which has been dealt with in the financial statements of the Company.

## 9 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB199,491,000 (2009: RMB130,038,000) and weighted average number of ordinary shares outstanding of 833,080,000 (2009: 687,560,000) ordinary shares, including 1,560,001 (2009: 1,560,001) ordinary shares in issue at the beginning of the year, 685,999,999 (2009: 685,999,999) ordinary shares issued pursuant to the capitalisation issue as set out in note 21(b) as if the shares were outstanding throughout 2010 and 2009, 62,440,000 ordinary shares (2009: Nil) issued on 15 July 2010 pursuant to the mandatory conversion of senior notes as set out in note 21(c), and 250,000,000 ordinary shares (2009: Nil) issued on 15 July 2010 pursuant to the share offer as set out in note 21(d).

The Company's warrants as at 31 December 2009 and the pre-IPO share options as at 31 December 2010 do not give rise to any dilution effect to the earnings per share.

## 10 OTHER COMPREHENSIVE INCOME

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Exchange differences on translation of financial statements of overseas subsidiaries | **1,782** | (14) |

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

*(Expressed in Renminbi unless otherwise indicated)*

## 11 DIRECTORS' REMUNERATION

The individual amounts of remuneration payable to directors during the year are as follows:

| | Directors' fees RMB'000 | Basics alaries, housing allowances and other allowances and benefits RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Share-based payments RMB'000 (Note) | Total RMB'000 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| *Executive directors* | | | | | | |
| Mr Wu Zhen Shan | – | 355 | – | 3 | 33 | 391 |
| Mr Wu Zhen Ling | – | 355 | – | 3 | 33 | 391 |
| Mr Wu Zhen He | – | 358 | – | 3 | 33 | 394 |
| Mr Zhang Zhen Hai | – | 355 | – | 3 | 33 | 391 |
| *Independent non-executive directors* | | | | | | |
| Mr Tian Chong Hou (appointed on 16 June 2010) | – | 25 | – | – | – | 25 |
| Mr Wang Ping (appointed on 16 June 2010) | – | 25 | – | – | – | 25 |
| Mr Cheung Ying Kwan (appointed on 16 June 2010) | – | 40 | – | – | – | 40 |
| | – | 1,513 | – | 12 | 132 | 1,657 |
| **2009** | | | | | | |
| *Executive directors* | | | | | | |
| Mr Wu Zhen Shan | – | 344 | – | 3 | – | 347 |
| Mr Wu Zhen Ling | – | 346 | – | 3 | – | 349 |
| Mr Wu Zhen He | – | 348 | – | 3 | – | 351 |
| Mr Zhang Zhen Hai | – | 345 | – | 3 | – | 348 |
| | – | 1,383 | – | 12 | – | 1,395 |

Note: These represent the estimated value of share options granted to the directors under the Company's pre-IPO share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(p)(ii).

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office for the current or prior years. No director has waived or agreed to waive any emoluments for the current or prior years.

*(Expressed in Renminbi unless otherwise indicated)*

## 12 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2009: four) are directors whose emoluments are disclosed in note 11. The emoluments in respect of the remaining individual are as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **896** | 819 |
| Share-based payments | **35** | – |
| Retirement scheme contributions | **10** | 11 |
| | **941** | 830 |

During the year, no emoluments have been paid by the Group to the directors, senior executives or any of the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13 SEGMENT REPORTING

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

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on property development. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented for the year ended 31 December 2010.

The Group's turnover from its major services is set out in note 4 to the financial statements.

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

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 14 PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings held for own use at cost RMB'000 | Leasehold improvement RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Subtotal RMB'000 | Interest in leasehold land held for own use under operating leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2009 | 871 | 2,170 | 223 | 4,042 | 18,839 | 26,145 | 282 | 26,427 |
| Additions | 2,217 | – | – | 3,231 | 5,848 | 11,296 | – | 11,296 |
| Disposals | – | – | – | (879) | (1,127) | (2,006) | – | (2,006) |
| At 31 December 2009 | 3,088 | 2,170 | 223 | 6,394 | 23,560 | 35,435 | 282 | 35,717 |
| **Accumulated depreciation and amortisation:** | | | | | | | | |
| At 1 January 2009 | 45 | 760 | 162 | 2,141 | 9,355 | 12,463 | 7 | 12,470 |
| Charge for the year | 97 | 434 | 14 | 479 | 3,264 | 4,288 | 7 | 4,295 |
| Write back on disposals | – | – | – | (23) | (953) | (976) | – | (976) |
| At 31 December 2009 | 142 | 1,194 | 176 | 2,597 | 11,666 | 15,775 | 14 | 15,789 |
| **Net book value:** | | | | | | | | |
| At 31 December 2009 | 2,946 | 976 | 47 | 3,797 | 11,894 | 19,660 | 268 | 19,928 |

| | **Buildings held for own use at cost** RMB'000 | **Leasehold improvement** RMB'000 | **Plant and machinery** RMB'000 | **Furniture, fixtures and equipment** RMB'000 | **Motor vehicles** RMB'000 | **Subtotal** RMB'000 | **Interest in leasehold land held for own use under operating leases** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2010 | **3,088** | **2,170** | **223** | **6,394** | **23,560** | **35,435** | **282** | **35,717** |
| Additions | **–** | **–** | **16** | **2,386** | **6,997** | **9,399** | **–** | **9,399** |
| Disposals | **–** | **–** | **–** | **(3)** | **(829)** | **(832)** | **–** | **(832)** |
| At 31 December 2010 | **3,088** | **2,170** | **239** | **8,777** | **29,728** | **44,002** | **282** | **44,284** |
| **Accumulated depreciation and amortisation:** | | | | | | | | |
| At 1 January 2010 | **142** | **1,194** | **176** | **2,597** | **11,666** | **15,775** | **14** | **15,789** |
| Charge for the year | **235** | **434** | **11** | **986** | **3,538** | **5,204** | **6** | **5,210** |
| Write back on disposals | **–** | **–** | **–** | **(1)** | **(583)** | **(584)** | **–** | **(584)** |
| At 31 December 2010 | **377** | **1,628** | **187** | **3,582** | **14,621** | **20,395** | **20** | **20,415** |
| **Net book value:** | | | | | | | | |
| At 31 December 2010 | **2,711** | **542** | **52** | **5,195** | **15,107** | **23,607** | **262** | **23,869** |

*(Expressed in Renminbi unless otherwise indicated)*

## 14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The analysis of carrying value of leasehold land held for own use under operating leases is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| In PRC, held on leases of | | |
| – Between 10 and 50 years | **262** | 268 |

## 15 INVESTMENT PROPERTIES

| | **RMB'000** |
|---|---|
| At 1 January 2009, 31 December 2009 and 1 January 2010 | – |
| Transfer from properties for sales | **63,122** |
| Increase in fair value | **94,201** |
| At 31 December 2010 | **157,323** |
| Representing: | |
| Valuation | **157,323** |

### (a) Basis of valuation of investment properties

All investment properties of the Group were revalued as at 31 December 2010 by an independent firm of surveyors, Jones Lang LaSalle Sallmanns Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued on an open market value basis calculated by reference to net rental income allowance for reversionary income potential.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 15 INVESTMENT PROPERTIES *(Continued)*

### (b) The analysis of fair value of investment properties is set out as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| In PRC, held on leases of | | |
| – Over 50 years | **66,976** | – |
| – Between 10 and 50 years | **90,347** | – |
| | **157,323** | – |

The Group's investment properties with carrying value of RMB157,323,000 (2009: Nil) were pledged as securities for the Group's bank loans (note 24).

### (c) Investment properties leased out under operating leases

The Group leases out its investment properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated.

The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Within 1 year | **993** | – |

## 16 INTEREST IN SUBSIDIARIES

| | **The Company** | |
|---|---|---|
| | **2010** **RMB'000** | 2009 RMB'000 |
| Unlisted shares, at cost | **160** | 160 |
| Amount due from a subsidiary | **169,573** | 152,565 |
| | **169,733** | 152,725 |

Amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment but is not expected to be settled within one year.

(Expressed in Renminbi unless otherwise indicated)

## 16 INTEREST IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affect the results, assets and liabilities of the Group.

| Name of company | Place of incorporation and operation | Issued and fully paid share capital/ paid-in capital | Proportion of ownership interest Held by the Company | Proportion of ownership interest Held by a subsidiary | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| Tian Shan International Investment Company Limited | The British Virgin Islands | US$20,000 | 100% | – | Investment holding | Limited liability company |
| Hebei Tian Shan Real Estate Development Company Limited ("Hebei Tianshan Real Estate") | Hebei, the PRC | RMB510,000,000 | – | 100% | Property development | Wholly owned foreign enterprise |
| Dragon China Engineering Limited | Hong Kong | HK$1 | – | 100% | Inactive | Limited liability company |
| Sanhe Hengji Real Estate Development Company Limited | Hebei, the PRC | RMB20,000,000 | – | 100% | Property development | Limited liability company |
| Tianjin Tian Shan Real Estate Development Company Limited | Tianjin, the PRC | RMB153,000,000 | – | 100% | Property development | Limited liability company |
| Weihai Tian Shan Real Estate Development Company Limited | Shangdong, the PRC | RMB105,000,000 | – | 100% | Property development | Limited liability company |
| Tian Shan (Hong Kong) Limited | Hong Kong | US$10,000 | – | 100% | Inactive | Limited liability company |
| Hebei Tianhu Travel Development Company Limited | Hebei, the PRC | RMB3,000,000 | – | 100% | Inactive | Limited liability company |

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 17 INVENTORIES

### (a) Inventories in the consolidated balance sheet comprise:

| | The Group 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Construction materials | – | 65 |
| Properties held for future development for sale | **773,634** | 342,536 |
| Properties under development for sale | **1,753,394** | 1,583,372 |
| Completed properties held for sale | **101,540** | 159,736 |
| | **2,628,568** | 2,085,644 |
| | **2,628,568** | 2,085,709 |

### (b) The analysis of carrying value of leasehold land included in inventories for property development is as follows:

| | The Group 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| In PRC, held on leases of | | |
| – Over 50 years | **1,407,060** | 1,203,672 |
| – Between 10 and 50 years | **138,666** | 73,144 |
| | **1,545,726** | 1,276,816 |

### (c) The amount of inventories for property development expected to be recovered after more than one year is analysed as follows:

| | The Group 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Properties held for future development for sale | **773,634** | 342,536 |
| Properties under development for sale | **1,145,396** | 820,995 |
| | **1,919,030** | 1,163,531 |

## 17 INVENTORIES *(Continued)*

**(d)** Certain portion of the Group's properties for sale were pledged against the bank and other loans, details are set out in notes 24 and 25.

**(e)** The cost of inventories sold for the year amounted to RMB774,392,000 (2009: RMB471,533,000).

**(f)** The Group temporarily leased out certain properties under operating leases. The leases run for a period of two years. The leases do not include contingent rents. The Group's total future minimum lease payments under non-cancellable operating leases are not significant.

## 18 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables (note (a)) | **25,994** | 24,432 | **–** | – |
| Deposits, prepayments and other receivables (notes (b) and (c)) | **322,924** | 245,239 | **2,061** | 4,163 |
| Amounts due from related parties (note (d)) | **–** | 27,574 | **–** | – |
| Gross amount due from customers for contract work (note (e)) | **720** | 4,200 | **–** | – |
| | **349,638** | 301,445 | **2,061** | 4,163 |

All of the trade and other receivables are expected to be recovered within one year.

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

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Current or less than 1 month overdue | **25,354** | 23,961 |
| 3 months to 1 year overdue | **640** | 471 |
| | **25,994** | 24,432 |

The Group's credit policy is set out in note 28(b).

*(Expressed in Renminbi unless otherwise indicated)*

## 18 TRADE AND OTHER RECEIVABLES *(Continued)*

### (b) Impairment of other receivables

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly (see note 2(h)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| At 1 January | **19,515** | 19,515 |
| Reversal of impairment loss | **(5,000)** | – |
| At 31 December | **14,515** | 19,515 |

The Group's other receivables which were individually determined to be impaired were RMB14,515,000 (2009: RMB19,515,000). The Group does not hold any collateral over these balances.

**(c)** Included in deposits, prepayments and other receivables were prepayments for leasehold land costs of RMB198,874,000 (2009: RMB158,049,000).

**(d)** Included in the amounts due from related parties is non-trade balance of RMB27,574,000 as at 31 December 2009. The amounts due from related parties as at 31 December 2009 were unsecured, interest free and had no fixed terms of repayment and were repaid during the year.

**(e)** The aggregate amount of costs incurred plus recognised profits to date, included in the gross amount due from/to customers for contract work at 31 December 2010, is RMB27,378,000 (2009: RMB61,822,000).

## 19 RESTRICTED CASH

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

*(Expressed in Renminbi unless otherwise indicated)*

## 20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks.

## 21 SHARE CAPITAL

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

| | The Group and the Company | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| **Authorised:** | | |
| 10,000,000,000 ordinary shares of HK$0.1 each (2009: 3,800,000 ordinary shares of HK$0.1 each) | **1,000,000** | 380 |
| **Issued and fully paid:** | | |
| 1,000,000,000 ordinary shares of HK$0.1 each (2009: 1,560,001 ordinary shares of HK$0.1 each) | **100,000** | 156 |
| RMB equivalent | **86,731** | 160 |

**(b)** Pursuant to the resolutions in writing of the sole shareholder of the Company passed on 16 June 2010, the authorised share capital of the Company was increased to HK$1,000,000,000 by the creation of an additional 9,996,200,000 ordinary shares of HK$0.1 each. In addition, 685,999,999 ordinary shares of HK$0.1 each were issued at par value on 15 July 2010 to the sole shareholder of the Company at that date by way of capitalisation of HK$68,599,999.9 from the Company's share premium account.

**(c)** On 15 July 2010, upon the listing of Company's shares on the Stock Exchange, 62,440,000 ordinary shares of HK$0.1 each were issued to the holders of senior notes of the Company upon the mandatory conversion of part of the senior notes in accordance with the terms of senior notes as set out in note 26(d).

**(d)** On 15 July 2010, the Company issued 250,000,000 shares with par value of HK$0.1 each at a price of HK$1.4 per share by way of a global initial public offering to Hong Kong and overseas investors upon the listing of Company's shares on the Stock Exchange. The Group raised approximately HK$325,411,000 (equivalent to RMB282,120,000) in total net of related expenses from the share offer.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 21 SHARE CAPITAL *(Continued)*

### Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its property development projects, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with the industry practice, the Group monitors its capital structure on the basis of net debt to equity ratio. Net debt is calculated as total debt less cash and cash equivalents. The net debt to equity ratio is calculated as net debt divided by total equity.

The net debt to equity ratios at 31 December 2010 and 2009 are as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| **Non-current liabilities** | | |
| Bank loans | **269,900** | 163,000 |
| Other loans | **152,080** | – |
| | **421,980** | 163,000 |
| **Current liabilities** | | |
| Bank loans | **93,300** | 267,937 |
| Other loans | **150,000** | – |
| Senior notes | **–** | 308,802 |
| | **243,300** | 576,739 |
| Total debt | **665,280** | 739,739 |
| Less: Cash and cash equivalents | **(376,224)** | (178,376) |
| Net debt | **289,056** | 561,363 |
| Total equity | **1,128,558** | 568,029 |
| Net debt to equity ratio | **0.26** | 0.99 |

*(Expressed in Renminbi unless otherwise indicated)*

## 22 RESERVES

### (a) Share premium

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to equity shareholders; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully paid bonuses shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

### (b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### (c) Other capital reserve

Other capital reserve represents the difference between the Group's interest in the net book value of an entity under common control of the shareholders that control the Group and the cost of transfer/ consideration of disposal of that entity; and the difference between the nominal value of shares of the subsidiary acquired over the nominal value of the shares exchanged by the Group thereafter.

### (d) PRC statutory reserve

The statutory reserve is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

### (e) Share-based compensation reserve

Share-based compensation reserve represents the fair value of services in respect of share options granted under the Pre-IPO share option scheme as set out in note 23.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 22 RESERVES *(Continued)*

### (f) Distributability of reserves

At 31 December 2010, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company at 31 December 2010 was RMB85,250,000 (2009: Nil). During the year, the directors do not recommend payment of any dividends attributable to the years (2009 Nil).

The Company relies on distributions or advances from its subsidiaries to pay any dividends. The ability of these subsidiaries to make distributions to the Company and the Company's ability to receive distributions are subject to applicable legal and other restrictions, including but not limited to restrictions on payment of dividends by PRC companies to non-PRC shareholders out of the PRC. These restrictions may impact the payment of distributions from the subsidiaries to the Company.

### (g) Reserves of the Company

| | Share premium RMB'000 (note 22(a)) | Exchange reserve RMB'000 (note 22(b)) | Share-based compensation reserve RMB'000 (note 22(e)) | Accumulated loss RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | – | 509 | – | (70,393) | (69,884) |
| Loss for the year | – | – | – | (76,201) | (76,201) |
| Exchange difference on translation of financial statements | – | 102 | – | – | 102 |
| Total comprehensive income | – | 102 | – | (76,201) | (76,099) |
| At 31 December 2009 | – | 611 | – | (146,594) | (145,983) |
| At 1 January 2010 | **–** | **611** | **–** | **(146,594)** | **(145,983)** |
| Loss for the year | **–** | **–** | **–** | **(38,736)** | **(38,736)** |
| Exchange difference on translation of financial statements | **–** | **(2,716)** | **–** | **–** | **(2,716)** |
| Total comprehensive income | **–** | **(2,716)** | **–** | **(38,736)** | **(41,452)** |
| Capitalisation issue (note 21(b)) | **(59,480)** | **–** | **–** | **–** | **(59,480)** |
| Mandatory conversion of senior notes (note 21(c)) | **70,671** | **–** | **–** | **–** | **70,671** |
| Issue of new shares, net of listing expenses (note 21(d)) | **260,443** | **–** | **–** | **–** | **260,443** |
| Equity settled share-based payment | **–** | **–** | **1,051** | **–** | **1,051** |
| | **271,634** | **–** | **1,051** | **–** | **272,685** |
| At 31 December 2010 | **271,634** | **(2,105)** | **1,051** | **(185,330)** | **85,250** |

(Expressed in Renminbi unless otherwise indicated)

# 23 EQUITY SETTLED SHARE-BASED TRANSACTION

## (a) Pre-IPO share options

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

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

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

The expected volatility was based on statistical analysis of daily share average prices of group of listed companies in the similar industry over the one year immediately preceding the grant date, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were estimated based on the dividend policy of the Group. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition had not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 23 EQUITY SETTLED SHARE-BASED TRANSACTION *(Continued)*

### (b) The number and the weighted average exercise price of share options are as follows:

| | 2010 | |
|---|---|---|
| | **Exercise price** HK$ | **Number of options** |
| Granted during the year | 0.7 | 6,000,000 |
| Cancelled during the year | 0.7 | (100,000) |
| Outstanding at 31 December | 0.7 | 5,900,000 |
| Exercisable at 31 December | | – |

The options outstanding at 31 December 2010 had an average exercise price of HK$0.7 and a weighted average remaining contractual life of 4.1 years.

No option were exercised during the year ended 31 December 2010.

*(Expressed in Renminbi unless otherwise indicated)*

## 24 BANK LOANS – SECURED

**(a)** At 31 December 2010, bank loans were repayable as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Within one year or on demand | **93,300** | 267,937 |
| After one year but within two years | **109,900** | 90,000 |
| After two years but within five years | **160,000** | 73,000 |
| | **269,900** | 163,000 |
| | **363,200** | 430,937 |

**(b)** As at 31 December 2009, included in secured bank loans were balances of RMB80,000,000 which were jointly secured by assets of certain related parties and the Group. The pledges were released prior to the listing of the Company's shares on the Stock Exchange.

At 31 December 2010, assets of the Group secured against bank loans are analysed as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | **49,513** | 60,539 |
| Properties under development for sale | **844,265** | 1,200,716 |
| Completed properties held for sale | **30,715** | 40,376 |
| Investment properties | **157,323** | – |
| | **1,081,816** | 1,301,631 |

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 24 BANK LOANS – SECURED *(Continued)*

**(c)** The effective interest rates per annum at 31 December 2010 ranged from:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **%** | % |
| Bank loans | **5.40 – 7.78** | 5.67 – 6.48 |

## 25 OTHER LOANS – SECURED

**(a)** At 31 December 2010, other loans were repayable as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Within one year or on demand | **150,000** | – |
| After one year but within two years | **152,080** | – |
| | **302,080** | – |

**(b)** At 31 December 2010, assets of the Group secured against other loans are analysed as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | **360,483** | – |

(Expressed in Renminbi unless otherwise indicated)

## 25 OTHER LOANS – SECURED (Continued)

**(c)** The effective interest rates per annum at 31 December 2010 ranged from:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **%** | % |
| Other loans | **5.00 – 10.00** | – |

## 26 SENIOR NOTES/WARRANTS – THE GROUP AND THE COMPANY

### (a) Senior notes/warrants issued on 9 October 2007

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

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

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

*(Expressed in Renminbi unless otherwise indicated)*

## 26 SENIOR NOTES/WARRANTS – THE GROUP AND THE COMPANY *(Continued)*

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

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

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

(i) If the warrants are exercised before the IPO of the Company, the exercise price of the warrants would be HK$560 per share, based on the 1,560,001 shares in issue of the Company.

(ii) If the warrants are exercised after the IPO and the IPO is completed before 9 October 2010, the holders of the warrants can exercise the warrants at a price of a 60% discount on the IPO price.

(iii) If the warrants are exercised after the IPO and the IPO is completed after 9 October 2010, the holders of the warrants can exercise the warrants at a price of a 75% discount on the IPO price.

The warrants would be expired in 2014.

### (c) Changes of terms of senior notes/warrants on 16 November 2009

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

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

## 26 SENIOR NOTES/WARRANTS – THE GROUP AND THE COMPANY *(Continued)*

### (c) Changes of terms of senior notes/warrants on 16 November 2009 *(Continued)*

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

The principal amount of the senior notes US$18 million due on 31 December 2009 was repaid by the due date.

### (d) Changes of terms of senior notes/warrants on 25 June 2010

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

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

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 26 SENIOR NOTES/WARRANTS – THE GROUP AND THE COMPANY *(Continued)*

**(e)** The movements of different components of the senior notes/warrants are set out below:

| | Liability component of the senior notes RMB'000 | Warrants RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2009 | 509,718 | 21,301 | 531,019 |
| Repayment | (245,880) | – | (245,880) |
| Charge/(credited) to profit or loss | 45,500 | (21,301) | 24,199 |
| Exchange differences | (536) | – | (536) |
| At 31 December 2009 | 308,802 | – | 308,802 |
| At 1 January 2010 | **308,802** | **–** | **308,802** |
| Repayment | **(228,474)** | **–** | **(228,474)** |
| Converted to ordinary shares | **(76,085)** | **–** | **(76,085)** |
| Credited to profit or loss | **(1,627)** | **–** | **(1,627)** |
| Exchange differences | **(2,616)** | **–** | **(2,616)** |
| At 31 December 2010 | **–** | **–** | **–** |

*(Expressed in Renminbi unless otherwise indicated)*

## 27 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 | **2010 RMB'000** | 2009 RMB'000 |
| Trade payables (note (a)) | **26,402** | 37,273 | **–** | – |
| Receipts in advance (note (b)) | **1,064,617** | 853,920 | **–** | – |
| Other payables and accruals (notes (c) and (d)) | **545,075** | 373,187 | **2,769** | 2,618 |
| Amounts due to related parties (note (e)) | **29,926** | 19,003 | **–** | 363 |
| Gross amount due to customers for contract work (note 18(e)) | **3,090** | – | **–** | – |
| | **1,669,110** | 1,283,383 | **2,769** | 2,981 |

**(a)** An ageing analysis of trade payables are set out as follows:

| | The Group | |
|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 |
| Due within 1 month or on demand | **26,402** | 37,273 |

**(b)** Receipts in advance represent sale proceeds received from buyer in connection with pre-sale of properties.

**(c)** Included in other payables and accruals of the Group were retention payables which were expected to be settled after more than one year amounted to RMB21,201,000 (2009: RMB14,537,000).

**(d)** Included in other payables and accruals were accrued construction costs to Hebei Tian Shan Industrial Group Construction Engineering Company Limited ("Tian Shan Construction"), a company wholly owned by the controlling shareholders of the Group, amounted to RMB27,762,000 (2009: RMB20,994,000).

**(e)** Amounts due to related parties are unsecured, interest free and repayable on demand.

*(Expressed in Renminbi unless otherwise indicated)*

# 28 FINANCIAL INSTRUMENTS

Exposure to interest rate, credit, liquidity and currency risks arises in the normal course of the Group's business. The risks are limited by the Group's financial management policies and practices described below.

## (a) Interest rate risk

The interest rates and terms of repayment of bank loans, other loans and senior notes of the Group are disclosed in notes 24, 25 and 26. The Group does not carry out any hedging activities to manage its interest rate exposure. A reasonably possible increase/decrease of 100 basis points interest rates would increase/decrease Group's profit by RMB0.8 million (2009: decrease/increase by RMB7.3 million).

## (b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored monthly by the directors with assistance of staff in Sales and Credit Department.

In respect of trade receivables of normal sales, no credit terms are granted to the purchasers. The Group normally arranges bank financing for buyers of properties and provides guarantee to secure repayment obligations of such purchasers. If there are default payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalties owed by the defaulted purchasers to banks. The Group's guarantee period commerces from the dates of grants of the relevant mortgage loans and ends after the purchasers obtain the individual property ownership certificates of the properties purchased. During the period under guarantee, as the Group has not applied for individual property ownership certificates for these purchasers, the Group can take over the ownership of the related properties and sell the properties to recover any amounts paid by the Group to the banks in the event that the purchasers default payments to the banks. In this regard, the directors consider that the credit risk of the Group is minimised.

In respect of trade receivables arising from instalment sales and other receivables, the Group assesses the financial abilities of the purchasers/debtors before granting the instalment sales/facilities to them. The Group chases the debtors to settle outstanding balances and monitors the settlement progress on an ongoing basis. The Group would not apply individual property ownership certificates for the property buyers until the outstanding balances are fully settled. Other than that, normally, the Group does not obtain collateral from debtors. The impairment losses on bad and doubtful accounts are within management's expectation.

*(Expressed in Renminbi unless otherwise indicated)*

## 28 FINANCIAL INSTRUMENTS *(Continued)*

### (c) Liquidity risk

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows, sale/pre-sale results of respective property projects, maturity of loans and borrowings and the progress of the planned property development projects in order to monitor the Group's liquidity requirements in the short and longer terms.

The Group's ability to settle its liabilities depends on the cash inflow from sale of its properties in the PRC. The directors are of the opinion that the Group will be able to finance its working and financial requirements based on a cash flow forecast prepared by the Group's management for the year ending 31 December 2011. The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group can be required to pay:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 |
| Bank loans | 363,200 | 400,504 | 113,592 | 121,354 | 165,558 |
| Other loans | 302,080 | 324,692 | 170,612 | 154,080 | – |
| Trade payables | 26,402 | 26,402 | 26,402 | – | – |
| Other payables and accruals | 545,075 | 545,075 | 523,874 | 21,201 | – |
| Gross amount due to customers for contract work | 3,090 | 3,090 | 3,090 | – | – |
| Amounts due to related parties | 29,926 | 29,926 | 29,926 | – | – |
| Tax payable | 123,739 | 123,739 | 123,739 | – | – |
| | 1,393,512 | 1,453,428 | 991,235 | 296,635 | 165,558 |

*(Expressed in Renminbi unless otherwise indicated)*

## 28 FINANCIAL INSTRUMENTS *(Continued)*

### (c) Liquidity risk *(Continued)*

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 |
| Senior notes | 308,802 | 325,887 | 325,887 | – | – |
| Bank loans | 430,937 | 471,472 | 296,165 | 98,581 | 76,726 |
| Trade payables | 37,273 | 37,273 | 37,273 | – | – |
| Other payables and accruals | 373,187 | 373,187 | 358,830 | 14,357 | – |
| Amounts due to related parties | 19,003 | 19,003 | 19,003 | – | – |
| Tax payable | 66,198 | 66,198 | 66,198 | – | – |
| | 1,235,400 | 1,293,020 | 1,103,356 | 112,938 | 76,726 |

### (d) Foreign exchange risk

The Group's businesses are principally conducted in RMB. The management expects that RMB will continue to appreciate against United States Dollars next year. Should RMB be appreciated against United States Dollars by 1%, there is no impact to the equity and profit or loss of the Group (2009: increase by RMB3 million).

### (e) Fair value

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables, bank loans and other loans are not materially different from their carrying amounts.

*(Expressed in Renminbi unless otherwise indicated)*

## 29 COMMITMENTS

**(a)** Capital commitments outstanding at 31 December 2010 not provided for in the financial statements are set out as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Authorised but not contracted for | **5,088,558** | 6,028,235 |
| Contracted but not provided for | **1,811,481** | 797,101 |
| | **6,900,039** | 6,825,336 |

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

**(b)** Significant leasing arrangements in respect of land and buildings and land held under operating leases are described in notes 14, 15 and 17.

**(c)** At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **10,921** | 480 |
| After 1 year but within 5 years | **20,619** | 480 |
| | **31,540** | 960 |

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 30 CONTINGENT LIABILITIES

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default in the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to banks. The Group's guarantee period commences from the dates of grants of the relevant mortgage loans and ends after the purchasers obtain the individual property ownership certificates of the properties purchased. The maximum amounts of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at 31 December 2010 are set out as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties | **1,916,300** | 1,836,364 |

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

## 31 MATERIAL RELATED PARTY TRANSACTIONS

Other than those disclosed in notes 11, 12, 18, 24 and 27 to the financial statements, the Group had the following significant transactions with related parties:

### Transactions with the Group's affiliated companies and their directors

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Construction cost (note (i)) | **277,749** | 227,658 |
| Rental expense (note (ii)) | **386** | 386 |

*(Expressed in Renminbi unless otherwise indicated)*

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### Transactions with the Group's affiliated companies and their directors *(Continued)*

Notes:

(i) The Group received construction services rendered by Tian Shan Doors and Windows Installation Company Limited and Tian Shan Construction, both are companies wholly owned by the controlling shareholders of the Group. The directors consider that the terms of such work were carried out on normal commercial terms and in the ordinary course of the Group's business, except for the credit terms granted.

(ii) The balance represents rental expenses paid for office and staff quarter occupied by the Group.

(iii) The Group received property management services in relation to the unsold properties from Shijiazhuang Tian Shan Property Management Company Limited, a company wholly owned by the controlling shareholders of the Group, with no consideration.

(iv) The Group was granted a license to use the trademarks "Tian Shan" pursuant to the relevant trademark licence agreement entered into between Hebei Tianshan Industrial Group Company Limited, a company wholly owned by the controlling shareholders of the Group, as licensor and Hebei Tianshan Real Estate, a subsidiary of the Group as licensee at nil consideration.

## 32 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Key sources of estimation uncertainty are as follows:

*(a) Impairment provision for buildings and construction in progress*

As explained in note 2(h), the Group makes impairment provision for the buildings and construction in progress taking into account the Group's estimates of the recoverable amount from such properties. The recoverable amounts have been determined based on value-in-use calculations, taking into account the latest market information and past experience. These calculation and valuations require the use of judgement and estimates.

Given the volatility of the PRC property market, the actual recoverable amount may be higher or lower than estimated at the balance sheet date. Any increase or decrease in the provision would affect profit or loss in future years.

*(Expressed in Renminbi unless otherwise indicated)*

## 32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### Key sources of estimation uncertainty are as follows: *(Continued)*

*(b) Provision for completed properties held for sale, properties held for future development and properties under development for sale*

The Group's completed properties held for sale and properties held for future development and properties under development for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development for sale, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, provision for completed properties held for sale, properties held for future development and under development for sale may be resulted. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the balance sheet date. Any increase or decrease in the provision would affect profit or loss in future years.

*(c) Impairment for trade and other receivables*

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade and loan receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

*(d) PRC Corporate Income Tax and PRC Land Appreciation Tax*

As explained in note 7, the Group is subject to PRC Corporate Income Tax and PRC Land Appreciation Tax under either authorised tax valuation method or actual taxation method in different jurisdictions. Significant judgement is required in determining the level of provision, as the calculations of which depend on the ultimate tax determination and are subject to uncertainty. The adoption of different methods may also affect the level of provision. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

*(Expressed in Renminbi unless otherwise indicated)*

## 32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (e) Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to profit or loss upon the recognition of sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group typically divides the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

### (f) Valuation of investment properties

All investment properties of the Group are revalued as at the balance sheet date by independent professionally qualified valuers, on an open market value basis. The completed investment properties are valued by reference to the net income with allowance for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sale prices for similar properties in the same location and condition and the appropriate capitalisation rate.

# Notes to the Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in the financial statements:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to IAS 12, *Income tax* | 1 January 2012 |
| Revised IAS 24, *Related party disclosures* | 1 January 2011 |
| IFRS 9, *Financial instruments* | 1 January 2013 |
| Improvements to IFRSs 2010 | 1 July 2010 or 1 January 2011 |

The Group has not early adopted the above amendments, new standards and new interpretations except for early adoption of Amendments to IAS 12, *Income tax* as set out in note 3. The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's result of operations and financial position.

## PROPERTY PROJECTS UNDER DEVELOPMENT

| Name of property projects | Location | Categories | Approximate total site area (sq. m.) | Approximate area under development (sq. m.) | Stage of completion | Interest attributable to the Group | Estimated project completion date |
|---|---|---|---|---|---|---|---|
| 1. New Great Earldom | No. 45 Huiyuan Road, Luancheng County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 37,967 | 20,901 | Superstructure | 100% | October 2011 |
| 2. Contemporary Noble Territory | No. 203 Zhonghua North Avenue, Xinhua District, Shijiazhuang, Hebei province, China | Residential/ commercial | 36,481 | 43,200 | Superstructure | 100% | October 2011 |
| 3. Tianjin Tian Shan Wonderful Waterside View (Phase I) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/ commercial | 243,714 | 492,311 | Superstructure | 100% | December 2013 |
| 4. Sanhe Tian Shan International Enterprise Base | Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China | Industrial | 181,198 | 64,488 | Superstructure | 100% | December 2013 |
| 5. Chengde Tian Shan Wonderful Waters View | Cuiqiao Road, Shuangqiao District, Chengde City, Hebei Province, China | Residential/ commercial | 80,845 | 58,829 | Superstructure | 100% | December 2012 |
| 6. Tian Shan Long Hu Wan (Phase I) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 41,936 | 36,691 | Superstructure | 100% | October 2011 |
| 7. Tian Shan Long Hu Wan (Phase II) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 49,313 | 41,637 | Superstructure | 100% | October 2011 |
| 8. Weihai Tian Shan Contemporary Noble Territory | Wendeng Economics Development Zone, Shandong Province, China | Residential/ commercial | 112,450 | 101,598 | Superstructure | 100% | November 2012 |
| 9. Ningjin Tian Shan Wonderful Waterside View | The west of Xinxing Road in Ningjin County, Hebei Province, China | Residential/ commercial | 93,328 | 56,408 | Superstructure | 100% | October 2012 |
| 10. Tian Shan Shijiazhuang Mechanical Industry Park | Yuanshi County, Shijiazhuang, Hebei Province, China | Industrial | 210,969 | 4,455 | Superstructure | 100% | May 2011 |
| 11. Tianjin Tian Shan Wonderful Waterside View (Phase II) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/ commercial | 502,965 | 29,243 | Foundation | 100% | May 2016 |
| 12. Weihai Tian Shan Waterside View (Phase I) | Wendeng City, Shangdong Province, China | Residential/ commercial | 79,860 | 47,200 | Foundation | 100% | October 2012 |
| 13. Tian Shan Long Hu Wan (Phase III) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 65,333 | 4,956 | Foundation | 100% | December 2013 |
| 14. Weihai Tian Shan international Enterprise Base | Wendeng Economics Development Zone, Shandong Province, China | Industrial | 266,570 | 30,448 | Superstructure | 100% | December 2013 |
| **Subtotal** | | | **2,002,929** | **1,032,365** | | | |

# Particulars of Properties

## PROPERTIES HELD FOR INVESTMENT

| Name of property | Location | Type | Approximate gross floor area (sq. m.) | Interest attributable to the Group | Lease term |
|---|---|---|---|---|---|
| 1. Tian Shan Waterside View (Phase IV) | No. 218 Zhufeng Avenue, Shijiazhuang, Hebei Province, China | Commercial | 9,263 | 100% | Long term |
| 2. Tian Shan Science and Technology Industrial Park | No. 319 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China | Apartment | 53,145 | 100% | Medium term |
| **Subtotal** | | | **62,408** | | |

## PROPERTIES HELD FOR SALE

| Name of property | Location | Type | Approximate gross floor area (sq. m.) | Approximate number of car parking spaces | Interest attributable to the Group | Lease term |
|---|---|---|---|---|---|---|
| 1. New Great Earldom | No. 45 Huiyuan Road, Luancheng County, Shijiazhuang, Hebei Province, China | Residential/commercial | 6,220 | 210 | 100% | Long term |
| 2. Contemporary Noble Territory | No. 203 Zhonghua North Avenue, Xinhua District, Shijiazhuang, Hebei Province, China | Residential/commercial | 5,497 | 97 | 100% | Long term |
| 3. Tianjin Tian Shan Wonderful Waterside View (Phase I) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/commercial | 2,174 | 157 | 100% | Long term |
| 4. Chengde Tian Shan Wonderful Waters View | Cuiqiao Road, Shuangqiao District, Chengde City, Hebei Province, China | Residential/commercial | 2,271 | 259 | 100% | Long term |
| 5. Ningjin Tian Shan Wonderful Waterside View | The west of Xinxing Road in Ningjin County, Hebei Province, China | Residential/commercial | 2,243 | 292 | 100% | Long term |
| 6. Tian Shan Waterside View (Phase IV) | No. 218 Zhufeng Avenue, Shijiazhuang, Hebei Province, China | Residential/commercial | 1,286 | – | 100% | Long term |
| 7. Tian Shan Waterside View (Phases I to III) | No. 219 Zhufeng Avenue, Shijiazhuang, Hebei Province, China | Residential/commercial | 624 | 14 | 100% | Long term |
| 8. Luancheng Tian Shan Wonderful Waters View | No. 8 Yutai Road, Luancheng County, Shijiazhuang, Hebei Province, China | Residential/commercial | 384 | – | 100% | Long term |
| 9. Tian Shan Guanlan Haoting | The south of Yu Hua Road, the north of Xiao Tan Village, China | Residential/commercial | 551 | 172 | 100% | Long term |
| **Subtotal** | | | **21,250** | **1,201** | | |

## CONSOLIDATED INCOME STATEMENT

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2007 RMB'000 | 2008 RMB'000 | 2009 RMB'000 | **2010 RMB'000** |
| Turnover | 463,167 | 648,174 | 752,592 | **1,159,854** |
| Cost of sales | (284,578) | (382,607) | (502,391) | **(780,783)** |
| Gross profit | 178,589 | 265,567 | 250,201 | **379,071** |
| Other income | 3,907 | 1,747 | 2,017 | **9,937** |
| Selling and marketing expenses | (16,345) | (38,626) | (34,949) | **(65,647)** |
| Administrative expenses | (46,127) | (63,687) | (46,638) | **(77,098)** |
| Profit from operations | 120,024 | 165,001 | 170,631 | **246,263** |
| Change in fair value of derivative financial instruments | – | 6,222 | 21,301 | **–** |
| Finance income | 5,241 | 1,389 | 886 | **2,206** |
| Finance expenses | (30,536) | (8,593) | (7,366) | **(296)** |
| Net financing (costs)/income | (25,295) | (982) | 14,821 | **1,910** |
| Profit before change in fair value of investment properties and income tax | 94,729 | 164,019 | 185,452 | **248,173** |
| Increase in fair value of investment properties | – | – | – | **94,201** |
| Profit before taxation | 94,729 | 164,019 | 185,452 | **342,374** |
| Income tax | (29,045) | (52,670) | (55,414) | **(142,883)** |
| Profit for the year | 65,684 | 111,349 | 130,038 | **199,491** |
| Basic earnings per share (RMB Cents) (note (i)) | 9.55 | 16.19 | 18.91 | **23.95** |

# Financial Summary

## CONSOLIDATED ASSETS AND LIABILITIES

| | 31 December | | | |
|---|---|---|---|---|
| | 2007<br>RMB'000 | 2008<br>RMB'000 | 2009<br>RMB'000 | **2010**<br>**RMB'000** |
| Total non-current assets | 40,812 | 26,266 | 50,519 | **218,533** |
| Total current assets | 1,875,693 | 2,200,123 | 2,626,230 | **3,397,387** |
| Total assets | 1,916,505 | 2,226,389 | 2,676,749 | **3,615,920** |
| Total non-current liabilities | 61,770 | 494,207 | 182,400 | **451,213** |
| Total current liabilities | 1,547,208 | 1,294,177 | 1,926,320 | **2,036,149** |
| Total liabilities | 1,608,978 | 1,788,384 | 2,108,720 | **2,487,362** |
| Net assets | 307,527 | 438,005 | 568,029 | **1,128,558** |

Notes:

(i) Basic earnings per share for the years ended 31 December 2007, 2008 and 2009 are calculated based on the number of ordinary shares outstanding of 687,560,000 ordinary shares, including 1,560,001 ordinary shares in issue and 685,999,999 ordinary shares issued pursuant to the capitalisation issue before IPO of the Company's shares as if the shares were outstanding throughout each of the years ended 31 December 2007, 2008 and 2009.

(ii) No financial information of the Group for the year ended 31 December 2006 has been published.