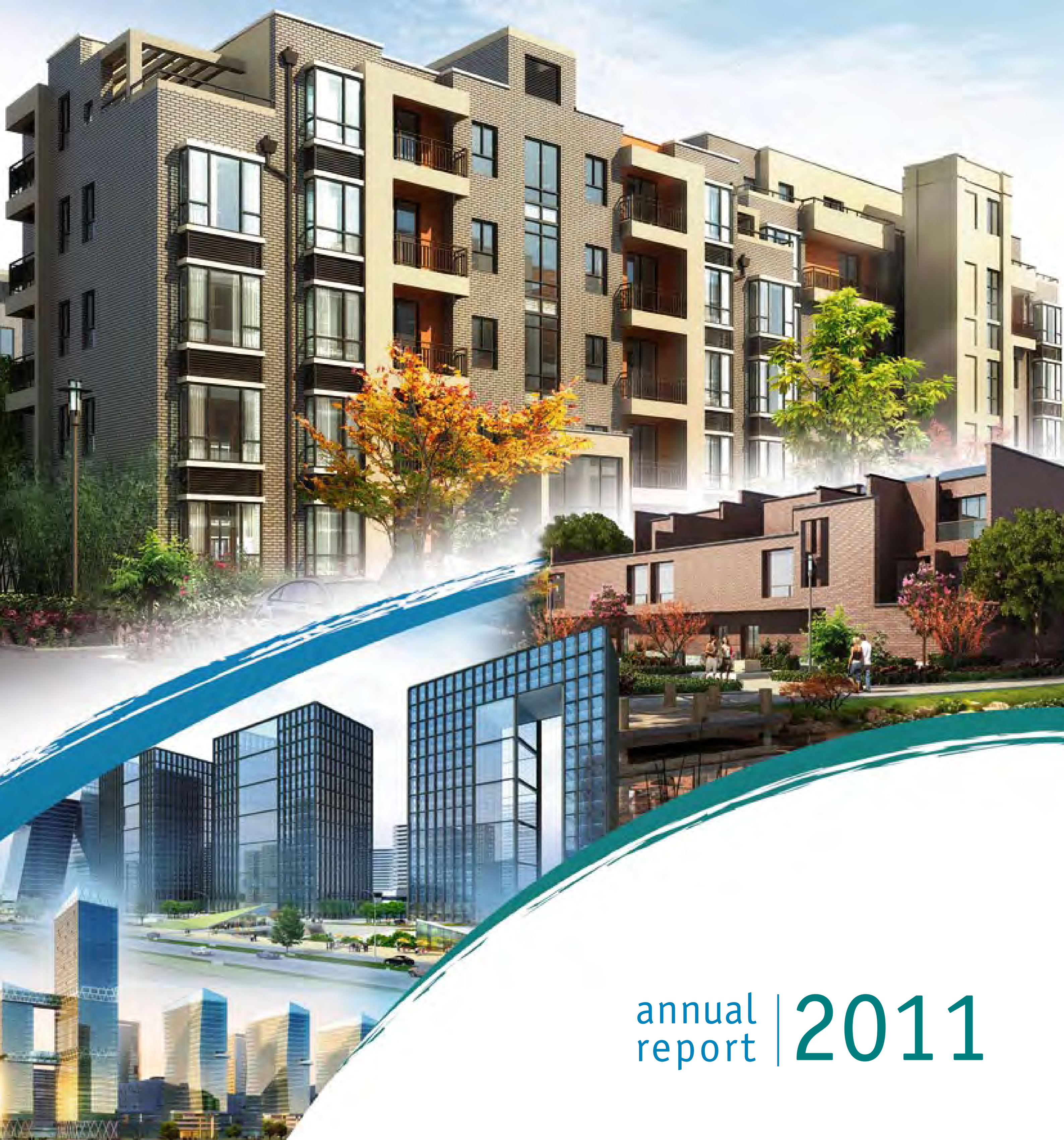
Tian Shan Development (Holding) Limited

天山發展(控股)有限公司

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

Stock Code: 2118



# annual report 2011

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# 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
Mr. WU Zhen Ling
Mr. TIAN Chong Hou *(Chairman)*
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

Room 3006, Level 30, One Exchange Square
8 Connaught Place, 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

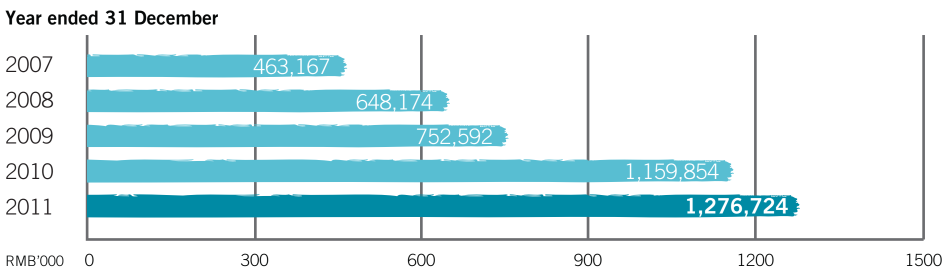
## HONG KONG BRANCH SHARE REGISTER AND TRANSFER OFFICE

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

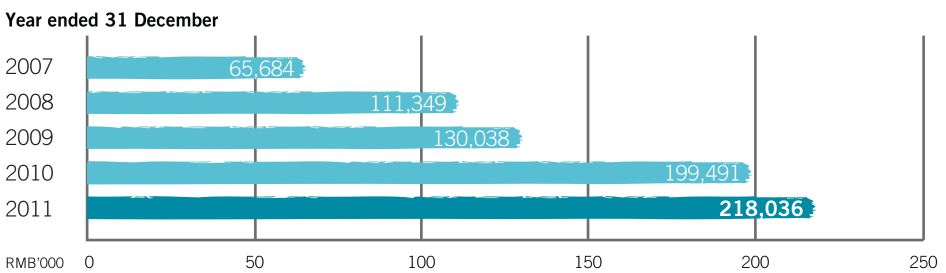
# Financial Highlights

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Turnover | **1,276,724** | 1,159,854 | 752,592 | 648,174 | 463,167 |
| Gross profit | **249,496** | 379,071 | 250,201 | 265,567 | 178,589 |
| Profit for the year | **218,036** | 199,491 | 130,038 | 111,349 | 65,684 |
| Basic earnings per share (RMB cents) | **21.80** | 23.95 | 18.91 | 16.19 | 9.55 |
| Delivered gross floor area | **278,492 sq.m.** | 442,482 sq.m. | 254,430 sq.m. | 263,528 sq.m. | 301,827 sq.m. |

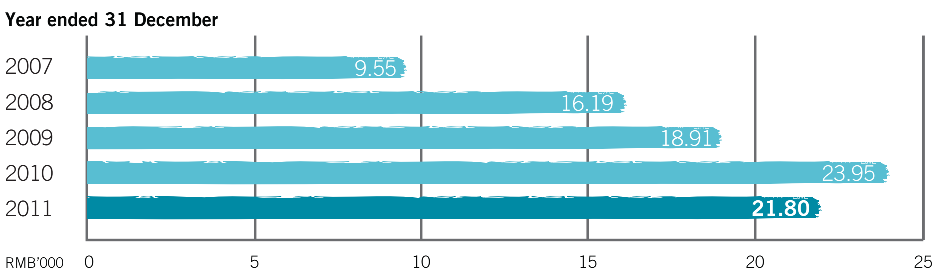
## Turnover




## Profit for the year




## Basic earnings per share



# Property Portfolio

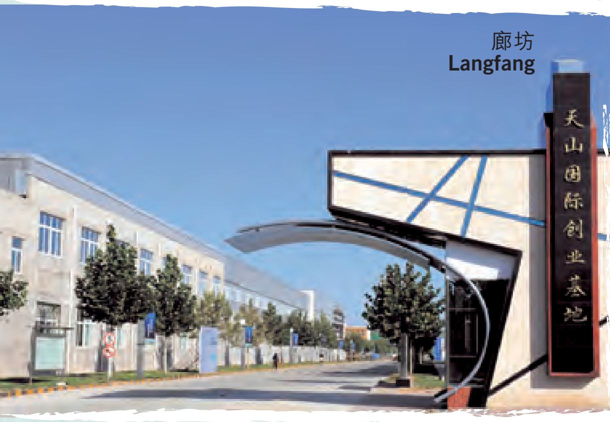
# Property Portfolio

石家莊
Shijiazhuang

石家莊
Shijiazhuang

石家莊
Shijiazhuang

邢臺
Xingtai




廊坊
Langfang

天津
Tianjin

# Chairman's Statement

2011, a year of development, quality and achievement for the Group. During the year, all employees of the Group in front of the complex economic situation, adhering to the core values of customer service, pursuit of excellence and improvement, made joint efforts to overcome difficulties. The Group mainly carried out business in Bohai Economic Rim with Beijing, Tianjin, Shangdong and Hebei as the core. Each of the Group's strategic decisions was fully implemented. Notwithstanding the national real estate industry is full of challenges, news of success from companies and business centers in the five regions of Tianjin, Shandong, Beijing, Yuanshi County and Shijiazhuang was received one by one.

2011 is the first year of The Twelfth Five-Year Plan. Over the past year, in the face of a volatile economy environment, board of directors of the Group made scientific decisions in response to the situation. Each regional office paid full attention to marketing and management, making full use of Hong Kong's listing platform for the effective operation of the international capital, strengthening cooperation with major international companies to invest and develop projects.

During the last year, we have withstood the test of grim situation in the real estate market, and accumulated much more experiences. In the coming years, we will continue to adhere to market demand-oriented strategy constantly improve ourselves, establish and improve a decision-making system, evaluate the capital chain of new projects and focus on expansion of scale development effect in mature region, in order to obtain a comprehensive benefits and to establish our brand influence. We will continue to adhere to customer service, and constantly strive for excellence and surpassing ourselves, to further improve customer satisfaction and trust, to provide customers with more and better quality products and services.

We will make joint efforts to create a brighter future. No difficulty can curb our strong desire to create a better life, and no challenge can stop us from accelerating the pace of development. As long as we strive for the same target, we will be able to achieve more excellent results. We firmly believe that under the correct leadership of our management, by virtue of the wisdom and talent of all our staff, we will certainly have a more brilliant 2012 with further success.

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.

**Tian Shan Development (Holding) Limited**
**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 one of the leading property developers currently focusing on developing quality residential properties and industrial properties in Bohai Economic Rim. As at 31 December 2011, the Group had 13 property projects under development and available for sale primarily in Shijiazhuang, Tianjin, Shangdong, and Chengde with the total planned gross floor area of approximately 2.0 million square meters ("sq.m.").

The Group's brand "*Tian Shan*" is well recognised by its customers. The Group's business objective is to provide a comfortable living environment to its customers. Following the global economic recovery and the strong economic growth in the Bohai Economic Rim, during the year under view, the Group recorded a satisfactory turnover and delivered gross floor area of RMB1,276.7 million and 278,492 sq.m. respectively.

The total contracted sales amount of RMB1,352.6 million or gross floor area sold of 427,364 sq.m. were also a satisfactory result for the year under review.

The Group had in the year under review decided to hold certain commercial and apartment properties in *Tian Shan Waterside View (Phase IV), Tian Shan Science and Technology Industrial Park, Contemporary Noble Territory* and *Sanhe Tian Shan International Enterprise Base* as investment properties for rental income to promote a more balanced cash flow from rental income in the long run.

## PROSPECTS

During the year, the directors were actively seeking opportunity to diversify the Group's business scope and to enlarge the Group's operation.

During the year, the Group had entered into a property joint venture development project (the "CBD Project") with Taiwan Durban Development Co., Limited ("Durban") in relation to demolition of total site areas of approximately 593,336 sq.m. at Liu Village, High-technology Industry Development Zone, Shijiazhuang, PRC. The CBD Project also involves the construction of approximately 630,000 sq.m., of which 500,000 sq.m. for re-settlement Property and 130,000 sq.m. for community commercial property. As of 31 December 2011, the Group had invested RMB310.0 million to the CBD Project and recorded in the balance sheet as other receivables. The Directors consider that the joint participation in the CBD Project with Durban will enable the Group to benefit from Durban's expertise in property development in Taiwan. With the experience and expertise of the Group in property market in the PRC, the Board is optimistic in further expanding its business.

With respect to the *Tianjin Tian Shan Wonderful Waterside View*, the Group had decided to build and run a waterpark (the "Tianjin Waterpark") in 2010 with a site area of 86,510 sq.m. as a new landmark of Xiaozhan Town, Jinnan District, Tianjin, to attract more purchasers to the *Tianjin Tian Shan Wonderful Waterside View*. The Tianjin Waterpark is expected to be completed and ready for trail run in the second half of 2012. The Directors consider that bringing in "entertainment" element into the residential property projects will be the future trend of residential property projects of 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 the potential of developing property prospects in other provinces in the PRC.

## FINANCIAL REVIEW

The Group's turnover increased by approximately 10.1% to approximately RMB1,276.7 million from RMB1,159.9 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 year under review, the Group's turnover were principally from the sales and delivery of residential and industrial property projects, namely *Contemporary Noble Territory, Tianjin Tian Shan Wonderful Waterside View (Phases I and II)* and *Chengde Tian Shan Wonderful Waters View*. The increase in turnover was mainly attributable to the increase of gross floor area delivered during the year under review. In addition, the average selling price per square meter for the property projects was generally higher than that of year 2010.

The cost of sales increased by approximately 31.7% to approximately RMB1,027.2 million from RMB780.8 million as compared with the prior year. The increase was mainly due to the increase in construction costs and was in line with the increase in the turnover during the year.

As a result of the foregoing, the amount of the gross profit decreased significantly by 34.2% to approximately RMB249.5 million from RMB379.1 million, while the gross profit margin for the year under review has decreased to approximately 19.5% as compared with that of 32.7% for the preceding year. The decrease in gross profit margin was mainly due to the higher construction costs for *Contemporary Noble Territory* and *Tianjin Tian Shan Wonderful Waterside View (Phases I and II)* while on average the selling prices were not adjusted upwards in the same magnitude due to the relatively stable market situation as compared to year 2010.

The Group's other revenue increased to approximately RMB11.3 million from RMB9.9 million. The increase was mainly due to more rental income earned from investment properties during the year under review as more investment properties were held by the Group.

During the year under review, the Group had entered into a land resale agreement with Shijiazhuang Land Bureau and Shijiazhuang Land Bureau agreed to purchase back from the Group the land use rights over a land parcel in Shijiazhuang at a total consideration of RMB236.6 million. Since the land parcel's carrying value was RMB30.9 million and therefore, the transfer resulted in a gain to the Group of approximately RMB205.7 million as reported in the consolidated income statement as other net income.

The Group's selling and marketing expenses increased by approximately 8.7% to RMB71.3 million from RMB65.6 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.

The Group's administrative expenses increased significantly by approximately 61.9% to RMB124.8 million from RMB77.1 million. The increase was primarily due to increase in staff costs, offices rental and the general administrative expenses, which was because of the increase in the number of new property projects commenced or to be commenced in the near future and the opening of Beijing office in 2011.

The Group's income tax expense decreased significantly by RMB29.6 million to approximately RMB113.3 million from RMB142.9 million. The decrease was primarily due to the decrease in the Group's gross profit margin and therefore lowering the burden on land appreciation tax of the property projects.

As a result of the above, the Group recorded a slight increase in net profit to approximately RMB218.0 million as compared with preceding year of RMB199.5 million.

## Current Assets and Liabilities

As at 31 December 2011, the Group had total current assets of approximately RMB4,570.7 million (2010: RMB3,397.4 million), comprising mainly inventories, trade and other receivables, and restricted cash and cash and cash equivalents.

As at 31 December 2011, the Group had total current liabilities of approximately RMB3,148.0 million (2010: RMB2,036.1 million), comprising mainly bank and other borrowings, trade and other payables and taxation.

As at 31 December 2011, the current ratio (calculated as the total current assets divided by the total current liabilities) was 1.5 (2010: 1.7).

## 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 2011, the gearing ratio (calculated as net debt divided by total equity) is as follows:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Total bank and other borrowings | **863,750** | 665,280 |
| Less: Cash and cash equivalents | **(180,469)** | (376,224) |
| Net debt | **683,281** | 289,056 |
| Total equity | **1,334,465** | 1,128,558 |
| Gearing ratio | **0.51** | 0.26 |

The gearing ratio increased from 0.26 to 0.51 was primarily due to the net effect of the increase in bank and other borrowings of approximately RMB198.5 million, the increase in total equity by the profit earned during the year of RMB218.0 million and the decrease in cash and cash equivalents by RMB195.8 million.

## Charge on Assets

At 31 December 2011, assets of the Group secured against bank and other loans are analysed as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | **31,890** | 409,996 |
| Properties under development for sale | **592,564** | 844,265 |
| Completed properties held for sale | **204,830** | 30,715 |
| Property, plant and equipment | **80,979** | – |
| Investment properties | **160,024** | 157,323 |
| | **1,070,287** | 1,442,299 |

In addition, as of 31 December 2011, the Group had restricted cash of RMB33.7 million (2010: RMB43.0 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 2011, the Group employed a total of 1,374 employees (31 December 2010: 1,233 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 2011 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 restrict 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.

## Capital Expenditure

During the year, the Group incurred capital expenditure in the amount of approximately RMB2,024.8 million (2010: RMB1,404.8 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 RMB1,901.3 million (2010: RMB1,916.3 million), the Group had no material contingent liability as at 31 December 2011.

## Final Dividend

The Directors have recommended the payment of a final dividend of HK3.5 cents (2010: Nil) per ordinary share for the year ended 31 December 2011.

## 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 55, 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 a member of the remuneration committee and the chairman of 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 31 years of experience in the construction industry and approximately 11 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, the principal business of which 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 Hi-tech 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.



**Mr. WU Zhen Ling** (吳振嶺), aged 47, 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 26 years of experience in the construction industry and approximately 11 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 58, 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 31 years of experience in the construction industry and approximately 11 years of experience in the property development industry. In 1980, Mr. ZHANG together with Mr. WU Zhan 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 40, 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 18 years of experience in the construction industry and 11 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 66, was appointed as an independent non-executive Director on 16 June 2010. Mr. TIAN is also the chairman of the remuneration committee and a member of the audit 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 54, 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 29 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's degree in senior management personnel business administration from Tsinghua University in July 2008.

**Mr. CHEUNG Ying Kwan**（張應坤）, aged 52, 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 23 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.



## SENIOR MANAGEMENT

**Mr. CHEUNG Siu Yiu**（張少耀）, aged 37, is the Chief Financial Officer and Company Secretary of the Company. Mr. CHEUNG graduated from the Hong Kong Baptist University with a bachelor's degree in business administration (Hons) in December 1997. Mr. CHEUNG is a practising fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England & Wales, a fellow of the Association of Chartered Certified Accountants and a member of The Institute of Internal Auditors. Mr. CHEUNG has over 14 years of experience in financial management and reporting.

**Mr. HAO Hui Guo**（郝會國）, aged 40, 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 8 years of experience in the construction industry from Tianshan Construction and 7 years of experience in the property development industry from Tian Shan Real Estate.

**Ms. GAO Li Xiang**（高立香）, aged 37, graduated from a four-year course in economics from Hebei University 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 12 years of experience in the property development industry from Tian Shan Real Estate.

**Ms. SI Jing Xin**（司景新）, aged 31, 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 year ended 31 December 2011 (the "Review Period").

## BOARD COMPOSITION

The Board 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 14 to 16 of this annual report.

The Company has three independent non-executive Directors ("INEDs"), 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 INEDs 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.

Every Director is entitled to have access to Board papers and related materials 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 held 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 six Board meetings during the Review Period and the following is the summary of the Directors attended the meetings.

| | **Number of meetings Attended/Eligible to attend** |
|---|---|
| *Executive Directors:* | |
| Mr. WU Zhen Shan *(Chairman)* | 4/4 |
| Mr. WU Zhen Ling | 2/4 |
| Mr. ZHANG Zhen Hai | 3/4 |
| Mr. WU Zhen He | 1/4 |
| *Independent non-executive Directors:* | |
| Mr. TIAN Chong Hou | 5/5 |
| Mr. WANG Ping | 4/5 |
| Mr. CHEUNG Ying Kwan | 5/5 |

### 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 INEDs) 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 of which 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 Group's financial reporting procedure, internal controls and financial results. The audit committee comprises the three INEDs, namely Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan. Mr. CHEUNG Ying Kwan is the chairman of the audit committee.

The Company held two audit committee meetings during the Review Period to review financial results and internal control system of the Group and all members 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 INEDs, namely Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan. Mr. WU Zhen Shan is the chairman of the remuneration committee during the Review Period. Subsequent by Mr. TIAN Chong Hou was appointed as the chairman of the remuneration committee on 30 March 2012.

The remuneration committee held one meeting during the Review Period primarily to determine the policy for remuneration of executive Directors, assess performance of executive Directors and approve the terms of executive Directors' service contracts and all members have attended.

### 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.



The nomination committee held one meeting during the Review Period primarily to determine the policy for nomination of Directors and all members have attended.

## External auditor

The Company has appointed KPMG as the independent external auditors. The remuneration paid or payable to the external auditors for statutory audit is HK$3,320,000. In addition, the remuneration paid for conducting a working capital forecast review for a major transaction of the Group is HK$350,000. There were no 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 2011 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 31 and 32 of this annual report.

## Internal control

During the Review Period, the Directors have 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 Directors were 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 and circulars. 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 2011.

## 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 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 98.

A special dividend of HK1.5 cents per ordinary share was paid on 28 September 2011. The Directors have recommended the payment of a final dividend of HK3.5 cents per ordinary share in respect of the year to shareholders on the register of members on 5 June 2012, subject to the approval of the shareholders at the forthcoming annual general meeting.

## Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five 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.

## Reserves

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

## Distributable reserves

At 31 December 2011, 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 RMB56,778,000.

## Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 4.3% of the total sales for the year and sales to the largest customer included therein amounted to 1.3% 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 under review, the purchase from the Group's five largest suppliers accounted for 39.2% 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 the PRC and is a connected person of the Company under the Listing Rules, "Tianshan Construction"), included therein amounted to 23.2% 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
Mr. WANG Ping
Mr. CHEUNG Ying Kwan

In accordance with article 108(a) of the Company's articles of association, Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan 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 14 to 17 of the annual report.

## Directors' service contracts

None of the 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 Board 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 note 30 to the financial statements, 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 2011, 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 (the "SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to



Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code 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 of the Company (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 is 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 2011, 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 2011, 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 (note) | 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.



Save as disclosed above, as at 31 December 2011, 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 shares and debentures of the Company and its associated corporations" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

## Pre-IPO share option scheme

On 16 June 2010, the Company adopted the Pre-IPO Share Option Scheme and on the same date, options to subscribe for an aggregate of 6,000,000 shares of the Company have been granted. The options can be exercised for a period of 10 years from the date of the grant. Further details of the terms of the Pre-IPO Share Option Scheme are disclosed in the 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 2011 | Grant during the year | Exercised during the year | Forfeited during the year | At 31 December 2011 | 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 | 4,945,000 | – | – | – | 4,945,000 | 16.06.2010 | 16.01. 2011 to 15.06.2020 | 0.70 |
| Total | 5,900,000 | – | – | – | 5,900,000 | | | |



Notes:

(a) WU Lan Zhi is the elder sister of WU Zhen Shan, WU Zhen Ling and WU Zhen He and the spouse of ZHANG Zhen Hai. The interest was also disclosed as an interest of ZHANG Zhen Hai in the section "Interests and short positions of the Directors and the chief executive 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 "Interests and short positions of the Directors and the chief executive 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 "Interests and short positions of the Directors and the chief executive 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 "Interests and short positions of the Directors and the chief executive 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 Ling and WU Zhen He.

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

### Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions in writing of the then sole shareholder of the Company on 16 June 2010 and has become effective upon the Company's Listing on 15 July 2010 (the "Listing Date"), 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 2011.

## CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTION

During the year, the Group had the following continuing connected transaction and connected transaction 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 transaction and connected transaction which also constitute related party transactions are set out in note 30 to the financial statements.

### Continuing Connected 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 2011, the annual cap for the continuing connected transaction under the Construction Services Agreement is RMB481.8 million and the actual transacted amount was RMB472.2 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 Construction 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.

## Connected transaction with tianshan construction

During the year under review, on 5 January 2011, Tianshan Construction entered into a loan agreement with a bank in the PRC whereby, among others, the bank agreed to grant to Tianshan Construction a loan of RMB15,400,000 for a period from 5 January 2011 to 4 January 2012. As security for the loan, Tian Shan Real Estate Development Limited ("Tian Shan Real Estate"), a wholly owned subsidiary of the Company, had agreed to provide a security over a land parcel in favour of the bank. In consideration of the provision of the security, Tianshan Construction has to pay Tian Shan Real Estate a sum of RMB570,000.



On 28 December 2011, the bank loan of RMB15,400,000 was fully repaid by Tianshan Construction to the bank. On 29 December 2011, Tianshan Construction entered into another loan agreement with the bank whereby the bank agreed, among others, to grant to Tianshan Construction a loan of RMB28,000,000 for a period from 29 December 2011 to 28 December 2012. As partial security for the loan, Tian Shan Real Estate had agreed to provide a security over the same land parcel in favour of the bank. In consideration of the continuous provision of the security, Tianshan Construction has to pay Tian Shan Real Estate a sum of RMB570,000.

The Directors (including the INEDs) consider that the charge and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company but are on the normal commercial terms and are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Further details of the connected transactions are set out in the Company's announcements dated 5 January 2011 and 30 December 2011.

## Contingent liabilities

Details of the contingent liabilities of the Company and the Group are set out in note 29 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*

30 March 2012



KPMG

**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 33 to 98, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011 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
30 March 2012

# Consolidated Income Statement

*for the year ended 31 December 2011*
*(Expressed in Renminbi)*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Turnover** | 4 | **1,276,724** | 1,159,854 |
| Cost of sales | | **(1,027,228)** | (780,783) |
| **Gross profit** | | **249,496** | 379,071 |
| Other revenue | 5 | **11,312** | 9,937 |
| Other net income | 5 | **205,657** | – |
| Selling and marketing expenses | | **(71,312)** | (65,647) |
| Administrative expenses | | **(124,795)** | (77,098) |
| **Profit from operations** | | **270,358** | 246,263 |
| Finance income | | **1,381** | 2,206 |
| Finance expenses | | **(608)** | (296) |
| **Net financing income** | 6(a) | **773** | 1,910 |
| **Profit before change in fair value of investment properties and income tax** | | **271,131** | 248,173 |
| Increase in fair value of investment properties | 15 | **60,159** | 94,201 |
| **Profit before taxation** | 6 | **331,290** | 342,374 |
| Income tax | 7 | **(113,254)** | (142,883) |
| **Profit for the year** | | **218,036** | 199,491 |
| **Earnings per share (RMB cents)** | 9 | | |
| Basic | | **21.80** | 23.95 |
| Diluted | | **21.78** | 23.95 |

The accompanying notes form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profits for the year are set out in note 22(a).

# Consolidated Statement of Comprehensive Income

*for the year ended 31 December 2011*
*(Expressed in Renminbi)*

| | Note | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **218,036** | 199,491 |
| **Other comprehensive income for the year** | 10 | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | **(889)** | 1,782 |
| **Total comprehensive income for the year** | | **217,147** | 201,273 |

The accompanying notes form part of these financial statements.

# Consolidated Balance Sheet

*at 31 December 2011*
*(Expressed in Renminbi)*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **165,227** | 23,869 |
| Investment properties | 15 | **276,991** | 157,323 |
| Deferred tax assets | 7(d) | **16,213** | 37,341 |
| | | **458,431** | 218,533 |
| **Current assets** | | | |
| Inventories | 17 | **3,386,255** | 2,628,568 |
| Trade and other receivables | 18 | **961,952** | 349,638 |
| Prepaid tax | 7(c) | **8,300** | – |
| Restricted cash | 19 | **33,744** | 42,957 |
| Cash and cash equivalents | 20 | **180,469** | 376,224 |
| | | **4,570,720** | 3,397,387 |
| **TOTAL ASSETS** | | **5,029,151** | 3,615,920 |
| **EQUITY** | | | |
| Share capital | 21 | **86,731** | 86,731 |
| Reserves | 22 | **1,247,734** | 1,041,827 |
| **SHAREHOLDERS' EQUITY** | | **1,334,465** | 1,128,558 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank loans – secured | 24 | **365,800** | 269,900 |
| Other loans – secured | 25 | **135,675** | 152,080 |
| Deferred tax liabilities | 7(d) | **45,164** | 29,233 |
| | | **546,639** | 451,213 |

# Consolidated Balance Sheet

*at 31 December 2011*
*(Expressed in Renminbi)*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Bank loans – secured | 24 | **225,200** | 93,300 |
| Other loans – secured | 25 | **137,075** | 150,000 |
| Trade and other payables | 26 | **2,683,088** | 1,669,110 |
| Current taxation | 7(c) | **102,684** | 123,739 |
| | | **3,148,047** | 2,036,149 |
| **TOTAL LIABILITIES** | | **3,694,686** | 2,487,362 |
| **TOTAL EQUITY AND LIABILITIES** | | **5,029,151** | 3,615,920 |
| **NET CURRENT ASSETS** | | **1,422,673** | 1,361,238 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,881,104** | 1,579,771 |

Approved and authorised for issue by the board of directors on 30 March 2012

**Wu Zhen Shan**
*Executive director*

**Wu Zhen Ling**
*Executive director*

The accompanying notes form part of these financial statements.

# Balance Sheet

*at 31 December 2011*
*(Expressed in Renminbi)*

| | Note | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current asset** | | | |
| Interest in subsidiaries | 16 | **146,536** | 169,733 |
| **Current assets** | | | |
| Other receivables | 18 | **1,101** | 2,061 |
| Cash and cash equivalents | 20 | **707** | 2,956 |
| | | **1,808** | 5,017 |
| **TOTAL ASSETS** | | **148,344** | 174,750 |
| **EQUITY** | | | |
| Share capital | 21 | **86,731** | 86,731 |
| Reserves | 22(g) | **56,778** | 85,250 |
| **TOTAL EQUITY** | | **143,509** | 171,981 |
| **Current liabilities** | | | |
| Other payables | 26 | **4,835** | 2,769 |
| **TOTAL LIABILITIES** | | **4,835** | 2,769 |
| **TOTAL EQUITY AND LIABILITIES** | | **148,344** | 174,750 |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(3,027)** | 2,248 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **143,509** | 171,981 |

Approved and authorised for issue by the board of directors on 30 March 2012

**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 2011*
*(Expressed in Renminbi)*

| | Note | Share capital RMB'000 (note 21) | Share premium RMB'000 (note 22(b)) | Exchange reserve RMB'000 (note 22(c)) | Other capital reserve RMB'000 (note 22(d)) | PRC statutory reserve RMB'000 (note 22(e)) | Share-based compensation reserve RMB'000 (note 22(f)) | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Group | | | | | | | |
| **At 1 January 2011** | | **86,731** | **271,634** | **49,148** | **110,070** | **118,972** | **1,051** | **490,952** | **1,128,558** |
| **Changes in equity for 2011** | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 218,036 | 218,036 |
| Other comprehensive income | 10 | – | – | (889) | – | – | – | – | (889) |
| **Total comprehensive income** | | – | – | (889) | – | – | – | 218,036 | 217,147 |
| Transfer to statutory reserve | | – | – | – | – | 28,029 | – | (28,029) | – |
| Equity settled share-based payment | | – | – | – | – | – | 1,036 | – | 1,036 |
| Dividends declared and paid | 22(a) | – | (12,276) | – | – | – | – | – | (12,276) |
| **At 31 December 2011** | | **86,731** | **259,358** | **48,259** | **110,070** | **147,001** | **2,087** | **680,959** | **1,334,465** |

| | Note | Share capital RMB'000 (note 21) | Share premium RMB'000 (note 22(b)) | Exchange reserve RMB'000 (note 22(c)) | Other capital reserve RMB'000 (note 22(d)) | PRC statutory reserve RMB'000 (note 22(e)) | Share-based compensation reserve RMB'000 (note 22(f)) | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Group | | | | | | | |
| **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 |

The accompanying notes form part of these financial statements.

# Consolidated Cash Flow Statement

*for the year ended 31 December 2011*
*(Expressed in Renminbi)*

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **331,290** | 342,374 |
| Adjustments for: | | |
| Depreciation and amortisation | **7,839** | 5,210 |
| Equity settled share-based payment expenses | **988** | 1,051 |
| Gain on disposal of property, plant and equipment | **(365)** | (265) |
| Increase in fair value of investment properties | **(60,159)** | (94,201) |
| Exchange loss/(gain) | **52** | (1,120) |
| Interest income | **(1,381)** | (1,086) |
| Net interest expense | **556** | 296 |
| Changes in working capital: | | |
| Increase in inventories | **(828,724)** | (551,497) |
| Increase in trade and other receivables | **(612,314)** | (48,193) |
| Decrease in restricted cash | **9,213** | 17,743 |
| Increase in trade and other payables | **1,013,978** | 387,526 |
| **Cash (used in)/generated from operations** | **(139,027)** | 57,838 |
| Tax paid | | |
| – PRC tax paid | **(105,550)** | (82,259) |
| **Net cash used in operating activities** | **(244,577)** | (24,421) |
| **Investing activities** | | |
| Payments for the purchase of property, plant and equipment | **(67,950)** | (9,399) |
| Proceeds from disposal of property, plant and equipment | **563** | 513 |
| Interest received | **1,381** | 1,086 |
| **Net cash used in investing activities** | **(66,006)** | (7,800) |

# Consolidated Cash Flow Statement

*for the year ended 31 December 2011*
*(Expressed in Renminbi)*

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Financing activities** | | |
| Net proceeds from issue of new shares | – | 282,120 |
| Repayment of senior notes | – | (228,474) |
| Proceeds from new bank loans | 361,600 | 296,500 |
| Proceeds from new other loans | 272,750 | 302,080 |
| Repayment of bank loans | (133,800) | (368,300) |
| Repayment of other loans | (302,080) | – |
| Interest paid | (70,473) | (54,143) |
| Dividend paid | (12,276) | – |
| **Net cash generated from financing activities** | 115,721 | 229,783 |
| **Net (decrease)/increase in cash and cash equivalents** | (194,862) | 197,562 |
| **Cash and cash equivalents at 1 January** | 376,224 | 178,376 |
| **Effect of foreign exchange rate changes** | (893) | 286 |
| **Cash and cash equivalents at 31 December** | 180,469 | 376,224 |

The accompanying notes form part of these financial statements.

# 1 CORPORATION 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 Room 3006, Level 30, One Exchange Square, 8 Connaught Place, Central, 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 2011 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 investment properties (see note 2(d)), which are stated at their fair value.

## 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 31.

### (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(g)).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(f)) 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 balance sheet date 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(q)(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(f)), 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(f).

### (e) 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(g)):

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

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, and an appropriate proportion of production overheads and borrowing costs (see note 2(s)).

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)*

### (e) 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 improvements | 3 – 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.

### (f) 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(d)); and

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) 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(d)) or is held for development for sale (see note 2(h)(i)).

### (g) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) 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.

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.



## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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(g)(i) and (ii)).



# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (h) 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:

### *(i) 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(s)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

### *(ii) 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.

## (i) 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(q)(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)*

### (j) 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(g)(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.

### (k) 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.

### (l) 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(p)(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.

### (m) 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.

### (n) 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.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (n) Employee benefits *(Continued)*

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

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.

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.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (o) 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 in 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.

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.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (o) Income tax *(Continued)*

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.

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.



# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (p) 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.

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(p)(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.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (q) 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.

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 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.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (q) Revenue recognition *(Continued)*

### *(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 from the carrying amount of the assets and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

## (r) 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.

## (s) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Borrowing costs *(Continued)*

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.

### (t) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

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

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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



## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) 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.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one 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:

– HKAS 24 (revised 2009), *Related party disclosures*

– Improvements to HKFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impact of other developments are discussed below:

– HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

– *Improvements to HKFRS (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 27 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.



*(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:

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Income from sales of properties | **1,268,124** | 1,145,451 |
| Revenue from construction contracts | **8,600** | 14,403 |
| | **1,276,724** | 1,159,854 |

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 REVENUE AND OTHER NET INCOME

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| **Other revenue** | | |
| Gross rental income | **7,920** | 2,730 |
| Gain on disposal of property, plant and equipment | **365** | 265 |
| Government subsidy (Note) | **250** | 5,000 |
| Others | **2,777** | 1,942 |
| | **11,312** | 9,937 |

Note: The government subsidy was in form of direct subsidy and tax refunds to certain subsidiaries of the Group from local government for encouragement of developments in such districts.



## 5 OTHER REVENUE AND OTHER NET INCOME *(Continued)*

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Other net income** | | |
| Gain on disposal of land | **205,657** | – |

During the year, pursuant to a resale agreement entered between the local land bureau in PRC and a subsidiary of the Group, the Group disposed of a piece of land with a carrying value of RMB30,962,000 at a consideration of RMB236,619,000. Accordingly, a gain on disposal of RMB205,657,000 was recognised.

## 6 PROFIT BEFORE TAXATION

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **(a) Net financing income** | | |
| Interest income (note (i)) | **(1,381)** | (1,086) |
| Exchange gain | **–** | (1,120) |
| Finance income | **(1,381)** | (2,206) |
| Interest expense and other borrowing costs on loans and borrowings wholly repayable within five years (note (i)) | **70,473** | 54,780 |
| Less: Interest capitalised (note (ii)) | **(69,917)** | (54,484) |
| Net interest expense | **556** | 296 |
| Exchange loss | **52** | – |
| Finance expenses | **608** | 296 |
| Net financing income | **(773)** | (1,910) |

## 6 PROFIT BEFORE TAXATION *(Continued)*

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

Notes:

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

(ii) Borrowing costs have been capitalised at an average rate of 9.1% per annum (2010: 6.4% per annum).

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| **(b) Staff costs** | | |
| Wages, salaries and other staff costs | **59,301** | 28,756 |
| Contributions to retirement benefits scheme | **3,256** | 927 |
| Equity settled share-based payment expenses (note 23) | **988** | 1,051 |
| | **63,545** | 30,734 |

In addition to the above, staff costs of RMB19,736,000 (2010: RMB17,577,000), including contributions to retirement benefits scheme of RMB1,107,000 (2010: RMB632,000), are capitalised as 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.

## 6 PROFIT BEFORE TAXATION *(Continued)*

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **(c) Other items** | | |
| Depreciation and amortisation | **7,839** | 5,210 |
| Auditors' remuneration | **3,250** | 2,855 |
| Gain on disposal of property, plant and equipment | **(365)** | (265) |
| Reversal of provision for impairment losses on other receivables | **(710)** | (5,000) |
| Operating lease charges on hire of property | **14,994** | 1,017 |
| Gross rental income less direct outgoings | **(6,703)** | (2,593) |

## 7 INCOME TAX

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Current tax** | | |
| PRC Corporate Income Tax (note 7(c)) | **39,742** | 66,302 |
| Land Appreciation Tax (note 7(c)) | **36,453** | 73,498 |
| | **76,195** | 139,800 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 7(d)) | **37,059** | 3,083 |
| | **113,254** | 142,883 |

# 7 INCOME TAX *(Continued)*

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

*(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 have no estimated assessable profits during the year.

### *(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% (2010: 13% to 15%) of their revenue in accordance with the authorised taxation method (核定徵收) approved by local tax bureau pursuant to the applicable PRC tax regulations. The tax rate was 25% (2010: 25%) on the deemed profit. Other PRC subsidiaries of the Group, which were subject to the actual taxation method (查賬徵收), were charged CIT at a rate of 25% (2010: 25%) on estimated assessable profits for the year.

### *(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税暫行條例) 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税暫行條例實施細則) 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 5% (2010: 1% to 3%) of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.



# 7 INCOME TAX *(Continued)*

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

### *(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 recognised (2010: Nil) for the undistributed earnings of the Group's PRC subsidiaries earned for the year ended 31 December 2011 since it is not probable that they will be distributed to their immediate holding company outside PRC in the foreseeable future.

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

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Profit before taxation | **331,290** | 342,374 |
| Notional tax on profit before taxation calculated at the rates applicable to the jurisdictions concerned | **83,799** | 87,308 |
| Non-taxable income | **(1)** | (316) |
| Non-deductible expenses | **13,478** | 18,371 |
| Utilisation of tax loss not recognised in prior years | **(1,540)** | – |
| Land Appreciation Tax | **36,453** | 73,498 |
| Tax effect of Land Appreciation Tax | **(9,113)** | (18,374) |
| Tax effect of adopting authorised taxation method | **(9,822)** | (17,604) |
| Actual tax expense | **113,254** | 142,883 |



## 7 INCOME TAX *(Continued)*

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **PRC Corporate Income Tax** | | |
| At 1 January | **35.452** | 17,757 |
| Charged to profit or loss (note 7(a)) | **39,742** | 66,302 |
| Tax paid | **(64,187)** | (48,607) |
| At 31 December | **11,007** | 35,452 |
| **Land Appreciation Tax** | | |
| At 1 January | **88,287** | 48,441 |
| Charged to profit or loss (note 7(a)) | **36,453** | 73,498 |
| Tax paid | **(41,363)** | (33,652) |
| At 31 December | **83,377** | 88,287 |
| Total | **94,384** | 123,739 |
| **Representing:** | | |
| Prepaid tax | **8,300** | – |
| Current taxation | **(102,684)** | (123,739) |
| | **(94,384)** | (123,739) |

# 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 | Deductibility of LAT RMB'000 | Tax loss RMB'000 | Others RMB'000 | Total RMB'000 |
| 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 |
| At 1 January 2011 | (9,833) | 37,341 | (19,400) | – | – | – | 8,108 |
| (Charged)/credited to the profit or loss (note 7(a)) | (11,178) | (28,518) | – | (2,277) | 4,330 | 584 | (37,059) |
| At 31 December 2011 | (21,011) | 8,823 | (19,400) | (2,277) | 4,330 | 584 | (28,951) |

*Representing:*

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Deferred tax assets | **16,213** | 37,341 |
| Deferred tax liabilities | **(45,164)** | (29,233) |
| | **(28,951)** | 8,108 |

## (e) Deferred tax assets and liabilities not recognised

At 31 December 2011, the Group has no material deferred tax assets and liabilities which are not recognised in the financial statements.

# 8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB11,134,000 (2010: RMB38,736,000) which has been dealt with in the financial statements of the Company.

Details of dividends paid and payable to equity shareholders of the Company are set out in note 22(a).

# 9 BASIC EARNINGS PER SHARE

## (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB218,036,000 (2010: RMB199,491,000) and the weighted average of 1,000,000,000 ordinary shares (2010: 833,080,000 shares) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

| | **2011** **'000** | 2010 '000 |
|---|---|---|
| Issued ordinary shares at 1 January | **1,000,000** | 1,560 |
| Effect of capitalisation issue (note 21(b)) | – | 686,000 |
| Effect of mandatory conversion of senior notes (note 21(c)) | – | 29,082 |
| Effect of share offer in global initial public offering (note 21(d)) | – | 116,438 |
| Weighted average number of ordinary shares at 31 December | **1,000,000** | 833,080 |

## (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB218,036,000 (2010: RMB199,491,000) and the weighted average number of ordinary shares of 1,000,968,915 shares (2010: 833,080,000), calculated as follows:

*(i) Profit attributable to ordinary equity shareholders of the Company (basic and diluted)*

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Profit attributable to ordinary equity shareholders of the company (basic and diluted) | **218,036** | 199,491 |



# 9 BASIC EARNINGS PER SHARE *(Continued)*

## (b) Diluted earnings per share *(Continued)*

### *(ii) Weighted average number of ordinary shares (diluted)*

| | **2011** | 2010 |
|---|---|---|
| | **'000** | '000 |
| Weighted average number of ordinary shares at 31 December | **1,000,000** | 833,080 |
| Effect of dilutive potential shares – share options | **969** | – |
| Weighted average number of ordinary shares (diluted) at 31 December | **1,000,969** | 833,080 |

# 10 OTHER COMPREHENSIVE INCOME

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Exchange differences on translation of financial statements of overseas subsidiaries | **(889)** | 1,782 |

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

## 11 DIRECTORS' REMUNERATION

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

| | Directors' fees RMB'000 | Basic salaries, 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 | – | 25 | – | – | – | 25 |
| Mr Wang Ping | – | 25 | – | – | – | 25 |
| Mr Cheung Ying Kwan | – | 40 | – | – | – | 40 |
| | – | 1,513 | – | 12 | 132 | 1,657 |
| **2011** | | | | | | |
| *Executive directors* | | | | | | |
| Mr Wu Zhen Shan | – | 682 | 224 | 14 | 34 | 954 |
| Mr Wu Zhen Ling | – | 681 | 224 | 14 | 34 | 953 |
| Mr Wu Zhen He | – | 695 | 224 | – | 34 | 953 |
| Mr Zhang Zhen Hai | – | 681 | 224 | 14 | 34 | 953 |
| *Independent non-executive directors* | | | | | | |
| Mr Tian Chong Hou | – | 42 | – | – | – | 42 |
| Mr Wang Ping | – | 42 | – | – | – | 42 |
| Mr Cheung Ying Kwan | – | 66 | – | – | – | 66 |
| | – | 2,889 | 896 | 42 | 136 | 3,963 |

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 2(n)(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.



## 12 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2010: four) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining two (2010: one) individuals are as follows:

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,906** | 896 |
| Share-based payments | **35** | 35 |
| Retirement scheme contributions | **20** | 10 |
| | **2,961** | 941 |

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.

The emoluments of these two (2010: one) individuals with the highest emoluments are within the following bands:

| | **2011** **Number of individuals** | 2010 Number of individuals |
|---|---|---|
| RMBNil to RMB1,000,000 | **1** | 1 |
| RMB1,000,001 to RMB1,500,000 | **–** | – |
| RMB1,500,001 to RMB2,000,000 | **1** | – |

## 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 2011.

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



## 14 PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings held for own use at cost RMB'000 | Leasehold improvements 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 |

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

## The Group *(Continued)*

| | Buildings held for own use at cost RMB'000 | Construction in progress RMB'000 | Leasehold improvements 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 2011 | 3,088 | – | 2,170 | 239 | 8,777 | 29,728 | 44,002 | 282 | 44,284 |
| Transfer from properties under development held for sale | – | 81,445 | – | – | – | – | 81,445 | – | 81,445 |
| Additions | – | 56,382 | 4,462 | – | 3,452 | 3,654 | 67,950 | – | 67,950 |
| Disposals | – | – | – | – | (16) | (544) | (560) | – | (560) |
| At 31 December 2011 | 3,088 | 137,827 | 6,632 | 239 | 12,213 | 32,838 | 192,837 | 282 | 193,119 |
| **Accumulated depreciation and amortisation:** | | | | | | | | | |
| At 1 January 2011 | 377 | – | 1,628 | 187 | 3,582 | 14,621 | 20,395 | 20 | 20,415 |
| Charge for the year | 229 | – | 1,875 | 11 | 1,267 | 4,451 | 7,833 | 6 | 7,839 |
| Write back on disposals | – | – | – | – | (4) | (358) | (362) | – | (362) |
| At 31 December 2011 | 606 | – | 3,503 | 198 | 4,845 | 18,714 | 27,866 | 26 | 27,892 |
| **Net book value:** | | | | | | | | | |
| At 31 December 2011 | 2,482 | 137,827 | 3,129 | 41 | 7,368 | 14,124 | 164,971 | 256 | 165,227 |

## 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| In PRC, held on leases of | | |
| – Between 10 and 50 years | **256** | 262 |

The Group's property, plant and equipment with carrying value of RMB80,979,000 (2010: RMBNil) were pledged as securities for the Group's bank loans (note 24).

## 15 INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| At 1 January 2010 | – |
| Transfer in from completed properties held for sale | 63,122 |
| Increase in fair value | 94,201 |
| At 31 December 2010 | 157,323 |
| **Representing:** | |
| Valuation | 157,323 |
| At 1 January 2011 | 157,323 |
| Transfer in from completed properties held for sale | 59,509 |
| Increase in fair value | 60,159 |
| At 31 December 2011 | 276,991 |
| **Representing:** | |
| Valuation | 276,991 |



## 15 INVESTMENT PROPERTIES *(Continued)*

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

All investment properties of the Group were revalued as at 31 December 2011 by an independent firm of surveyors, Jones Lang LaSalle Corporate Appraisal and Advisory 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 and allowance for reversionary income potential.

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

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| In PRC | | |
| – Long leases | **68,084** | 66,976 |
| – Medium-term leases | **208,907** | 90,347 |
| | **276,991** | 157,323 |

The Group's investment properties with carrying value of RMB160,024,000 (2010: RMB157,323,000) 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 forty-five 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:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Within 1 year | **2,600** | 993 |
| After 1 year but within 5 years | **4,487** | – |
| After 5 years | **44,685** | – |
| | **51,772** | 993 |



## 16 INTEREST IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **160** | 160 |
| Amount due from a subsidiary | **146,376** | 169,573 |
| | **146,536** | 169,733 |

Amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment and is expected to be settled after more than one year.

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 |
| Tian Shan Real Estate Development Company Limited ("Tian Shan 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 |

## 16 INTEREST IN SUBSIDIARIES *(Continued)*

| 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 | Held by a subsidiary | Principal activities | Legal form |
|---|---|---|---|---|---|---|
| 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 |
| Shan Ling Hai He Property Company Limited | Hebei, the PRC | RMB50,000,000 | – | 100% | Inactive | Limited liability company |

## 17 INVENTORIES

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | **287,958** | 773,634 |
| Properties under development for sale | **2,311,136** | 1,753,394 |
| Completed properties held for sale | **787,161** | 101,540 |
| | **3,386,255** | 2,628,568 |



## 17 INVENTORIES *(Continued)*

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| In PRC, held on leases of | | |
| – Over 50 years | **1,227,857** | 1,407,060 |
| – Between 10 and 50 years | **23,904** | 138,666 |
| | **1,251,761** | 1,545,726 |

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | **287,958** | 773,634 |
| Properties under development for sale | **539,561** | 1,145,396 |
| | **827,519** | 1,919,030 |

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

**(e)** The cost of inventories sold for the year amounted to RMB1,023,937,000 (2010: RM774,392,000).

**(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.

**(g)** In addition to properties for sale secured against the Group's bank and other loans as set out in notes 24 and 25, at 31 December 2011, properties for sale with a carrying value of RMB7,400,000 was secured against a banking facility of RMB16,300,000 of Hebei Tianshan Industrial Group Construction Engineering Company Limited ("Tianshan Construction"), a company wholly owned by the controlling shareholder of the Group.



## 18 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables (note (a)) | **18,352** | 25,994 | **–** | – |
| Deposits, prepayments and other receivables (note (c)) | **943,599** | 322,924 | **1,101** | 2,061 |
| Gross amount due from customers for contract work (note (d)) | **1** | 720 | **–** | – |
| | **961,952** | 349,638 | **1,101** | 2,061 |

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

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Current or less than 1 month overdue | **16,756** | 25,354 |
| 3 months to 1 year overdue | **1,596** | 640 |
| | **18,352** | 25,994 |

The Group's credit policy is set out in note 27(b).

*(Expressed in Renminbi unless otherwise indicated)*

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

### (b) Impairment of other receivable

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(g)(i)).

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At 1 January | **14,515** | 19,515 |
| Reversal of impairment loss | **(710)** | (5,000) |
| At 31 December | **13,805** | 14,515 |

The Group's other receivables which were individually determined to be impaired were RMB13,805,000 (2010: RMB14,515,000). 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 RMB453,401,000 (2010: RMB198,874,000).

At 31 December 2011, an amount of RMB310 million (2010: Nil) was paid as deposits for redevelopment of an village in Shijiazhuang and included in other receivables of the Group.

**(d)** 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 2011, is RMB13,926,000 (2010: RMB27,378,000).



## 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.

## 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Authorised:** | | |
| 10,000,000,000 ordinary shares of HK$0.1 each (2010: 10,000,000,000 ordinary shares of HK$0.1 each) | **1,000,000** | 1,000,000 |
| **Issued and fully paid:** | | |
| 1,000,000,000 ordinary shares of HK$0.1 each (2010: 1,000,000,000 ordinary shares of HK$0.1 each) | **100,000** | 100,000 |
| RMB equivalent | **86,731** | 86,731 |

**(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.

## 21 SHARE CAPITAL *(Continued)*

**(c)** The Company previously issued certain senior notes together with warrants bearing a share conversion option. 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.

**(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.

### *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. This ratio is calculated as net debt divided by total equity.

## 21 SHARE CAPITAL *(Continued)*

### (d) *(Continued)*

#### *Capital management (Continued)*

The net debt to equity ratios at 31 December 2011 and 2010 are as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Non-current liabilities** | | |
| Bank loans | **365,800** | 269,900 |
| Other loans | **135,675** | 152,080 |
| | **501,475** | 421,980 |
| **Current liabilities** | | |
| Bank loans | **225,200** | 93,300 |
| Other loans | **137,075** | 150,000 |
| | **362,275** | 243,300 |
| Total debt | **863,750** | 665,280 |
| Less: Cash and cash equivalents | **(180,469)** | (376,224) |
| Net debt | **683,281** | 289,056 |
| Total equity | **1,334,465** | 1,128,558 |
| Net debt to equity ratio | **0.51** | 0.26 |

# 22 RESERVES AND DIVIDENDS

## (a) Dividends

Dividends paid and payable to equity shareholders of the Company

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Special dividend declared and paid of HK1.5 cents (equivalent to RMB1.23 cents) per ordinary share (2010: Nil) | **12,276** | – |
| Final dividend proposed after the balance sheet date of HK3.5 cents (equivalent to RMB2.84 cents) per ordinary share (2010: Nil)* | **28,406** | – |
| | **40,682** | – |

* The final dividend was proposed after the balance sheet date and has not been recognised as a liability at the balance sheet date. The proposed final dividend is subject to the shareholders' approval at the forthcoming annual general meeting.

## (b) 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.

## (c) Exchange reserve

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

## (d) 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.

# 22 RESERVES AND DIVIDENDS *(Continued)*

## (e) 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.

## (f) 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.

## (g) Distributability of reserves

At 31 December 2011, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company at 31 December 2011 was RMB56,778,000 (2010: RMB85,250,000).

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.

## (h) Reserves of the Company

| | Note | Share premium RMB'000 (note 22(b)) | Exchange reserve RMB'000 (note 22(c)) | Share-based compensation reserve RMB'000 (note 22(f)) | Accumulated loss RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| 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 | 21(b) | (59,480) | – | – | – | (59,480) |
| Mandatory conversion of senior notes | 21(c) | 70,671 | – | – | – | 70,671 |
| Issue of new shares, net of listing expenses | 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 |



## 22 RESERVES AND DIVIDENDS *(Continued)*

### (h) Reserves of the Company *(Continued)*

| | Note | Share premium RMB'000 (note 22(b)) | Exchange reserve RMB'000 (note 22(c)) | Share-based compensation reserve RMB'000 (note 22(f)) | Accumulated loss RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2011 | | **271,634** | **(2,105)** | **1,051** | **(185,330)** | **85,250** |
| Loss for the year | | **–** | **–** | **–** | **(11,134)** | **(11,134)** |
| Exchange difference on translation of financial statements | | **–** | **(6,098)** | **–** | **–** | **(6,098)** |
| Total comprehensive income | | **–** | **(6,098)** | **–** | **(11,134)** | **(17,232)** |
| Equity settled share-based payment | | **–** | **–** | **1,036** | **–** | **1,036** |
| Dividends declared and paid | 22(a) | **(12,276)** | **–** | **–** | **–** | **(12,276)** |
| | | **(12,276)** | **–** | **1,036** | **–** | **(11,240)** |
| At 31 December 2011 | | **259,358** | **(8,203)** | **2,087** | **(196,464)** | **56,778** |

*(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.

(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:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Exercise price HK$ | Number of options | Exercise price HK$ | Number of options |
| Outstanding at 1 January | 0.7 | 5,900,000 | – | – |
| 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 | 0.7 | 5,900,000 |
| Exercisable at 31 December | 0.7 | 1,180,000 | – | – |

The options outstanding at 31 December 2011 had an average exercise price of HK$0.7 (2010: HK$0.7) and a weighted average remaining contractual life of 3.2 years (2010: 4.1 years).

No option were exercised during the year ended 31 December 2011 (2010: Nil).

## 24 BANK LOANS – SECURED

**(a)** At 31 December 2011, bank loans were repayable as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Within one year or on demand | **225,200** | 93,300 |
| After one year but within two years | **90,300** | 109,900 |
| After two years but within five years | **275,500** | 160,000 |
| | **365,800** | 269,900 |
| | **591,000** | 363,200 |

**(b)** At 31 December 2011, assets of the Group secured against bank loans are analysed as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | – | 49,513 |
| Properties under development for sale | **330,314** | 844,265 |
| Completed properties held for sale | **185,990** | 30,715 |
| Property, plant and equipment | **80,979** | – |
| Investment properties | **160,024** | 157,323 |
| | **757,307** | 1,081,816 |

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

**(c)** The effective interest rates per annum at 31 December 2011 ranged from:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **%** | % |
| Bank loans | **5.88 – 8.48** | 5.40 – 7.78 |

## 25 OTHER LOANS – SECURED

**(a)** At 31 December 2011, other loans were repayable as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Within one year or on demand | **137,075** | 150,000 |
| After one year but within two years | **135,675** | 152,080 |
| | **272,750** | 302,080 |

**(b)** At 31 December 2011, assets of the Group secured against other loans are analysed as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Properties held for future development for sale | **31,890** | 360,483 |
| Properties under development for sale | **262,250** | – |
| Completed properties held for sale | **18,840** | – |
| | **312,980** | 360,483 |

## 25 OTHER LOANS – SECURED *(Continued)*

**(c)** The effective interest rates per annum at 31 December 2011 ranged from:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **%** | % |
| Other loans | **5.00 – 16.50** | 5.00 – 10.00 |

## 26 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade payables (note (a)) | **87,758** | 26,402 | **–** | – |
| Receipts in advance | **1,104,803** | 1,064,617 | **–** | – |
| Other payables and accruals (note (b) and (c)) | **1,450,231** | 545,075 | **2,378** | 2,769 |
| Amounts due to ultimate holding company (note (d)) | **2,457** | – | **2,457** | – |
| Amounts due to related parties (note (d)) | **37,839** | 29,926 | **–** | – |
| Gross amount due to customers for contract work (note 18(d)) | **–** | 3,090 | **–** | – |
| | **2,683,088** | 1,669,110 | **4,835** | 2,769 |

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Due within 1 month or on demand | **87,758** | 26,402 |



## 26 TRADE AND OTHER PAYABLES *(Continued)*

**(b)** 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 RMB91,054,000 (2010: RMB21,201,000).

**(c)** Included in other payables and accruals were accrued construction costs to Tianshan Construction amounted to RMB206,669,000 (2010: RMB27,762,000).

**(d)** Amounts due to the ultimate holding company, Neway Enterprises Limited, and related parties are unsecured, interest free and repayable on demand.

## 27 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 and other loans of the Group are disclosed in notes 24 and 25. 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 RMB5.2 million (2010: increase/decrease by RMB0.8 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 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. 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.

## 27 FINANCIAL INSTRUMENTS *(Continued)*

### (b) Credit risk *(Continued)*

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.

### (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 foreseeable future. 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:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | 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 | 591,000 | 646,061 | 256,428 | 111,485 | 278,148 |
| Other loans | 272,750 | 304,755 | 153,959 | 150,796 | – |
| Trade payables | 87,758 | 87,758 | 87,758 | – | – |
| Other payables and accruals | 1,399,938 | 1,399,938 | 1,308,884 | 91,054 | – |
| Amounts due to the ultimate holding company | 2,457 | 2,457 | 2,457 | – | – |
| Amounts due to related parties | 37,839 | 37,839 | 37,839 | – | – |
| Tax payable | 102,684 | 102,684 | 102,684 | – | – |
| | 2,494,426 | 2,581,492 | 1,950,009 | 353,335 | 278,148 |

## 27 FINANCIAL INSTRUMENTS *(Continued)*

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

| | 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 |

### (d) Foreign exchange risk

The Group has no significant exposure to foreign exchange risk as substantially all of its transactions are denominated in RMB.

### (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.



## 28 COMMITMENTS

**(a)** Capital commitments outstanding at 31 December 2011 not provided for in the financial statements are set out as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Authorised but not contracted for | **6,307,329** | 5,088,558 |
| Contracted but not provided for | **2,148,966** | 1,811,481 |
| | **8,456,295** | 6,900,039 |

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 2011, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **15,014** | 10,921 |
| After 1 year but within 5 years | **15,366** | 20,619 |
| | **30,380** | 31,540 |

## 29 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 for repaying 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 2011 are set out as follows:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties | **1,901,300** | 1,916,300 |

The directors consider that it is not probable that the Group will suffer 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 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.

## 30 MATERIAL RELATED PARTY TRANSACTIONS

Other than those disclosed in notes 11, 12, 23 and 26 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** | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Construction cost (note (i)) | **472,181** | 277,749 |
| Rental expense (note (ii)) | **386** | 386 |
| Guarantee fee income (note (iii)) | **(570)** | – |



## 30 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 Tianshan 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 a longer credit terms granted to the Group.

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

(iii) The balance represents the guarantee fee received from Tianshan Construction in respect of properties for sales of the Group secured against a banking facility of Tianshan Construction as set out in note 17(g).

(iv) 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.

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

## 31 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(g), 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.



## 31 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 properties 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.



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

### Key sources of estimation uncertainty are as follows: *(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 and 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.

(Expressed in Renminbi unless otherwise indicated)



## 32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income* | 1 July 2012 |
| IFRS 10, *Consolidated financial statements* | 1 January 2013 |
| IFRS 12, *Disclosure of interests in other entities* | 1 January 2013 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 areas under development (sq.m.) | Stage of completion | Interest attributable to the Group | Estimate project completion date |
|---|---|---|---|---|---|---|---|---|
| 1. | Tianjin Tian Shan Wonderful Waterside View (Phase I) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/ commercial | 243,714 | 295,605 | Superstructure | 100% | December 2013 |
| 2. | Sanhe Tian Shan International Enterprise Base | Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China | Industrial | 181,198 | 12,149 | Superstructure | 100% | December 2013 |
| 3. | Chengde Tian Shan Wonderful Waters View | Cuiqiao Road, Shuangqiao District, Chengde City, Hebei Province, China | Residential/ commercial | 80,845 | 58,230 | Superstructure | 100% | December 2012 |
| 4. | Tian Shan Long Hu Wan (Phase I) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 41,936 | 15,215 | Superstructure | 100% | December 2012 |
| 5. | Tian Shan Long Hu Wan (Phase II) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 49,313 | 15,079 | Superstructure | 100% | December 2012 |
| 6. | Weihai Tian Shan Contemporary Noble Territory | Wendeng Economics Development Zone, Shandong Province, China | Residential/ commercial | 112,450 | 66,823 | Superstructure | 100% | December 2012 |
| 7. | Ningjin Tian Shan Wonderful Waterside View | The west of Xinxing Road in Ningjin County, Hebei Province, China | Residential/ commercial | 93,328 | 30,700 | Superstructure | 100% | December 2012 |
| 8. | Tianjin Tian Shan Wonderful Waterside View (Phase II) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/ commercial | 502,965 | 122,802 | Superstructure | 100% | May 2015 |
| 9. | Weihai Tian Shan Waterside View (Phase I) | Wendeng City, Shangdong Province, China | Residential/ commercial | 79,860 | 59,391 | Superstructure | 100% | December 2013 |
| 10. | Tian Shan Long Hu Wan (Phase III) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 65,333 | 3,137 | Foundation | 100% | December 2013 |
| 11. | Tian Shan Shijiazhuang Mechanical Industry Park | Yuanshi County, Shijiazhuang, Hebei Province, China | Industrial | 210,969 | – | Foundation | 100% | December 2014 |
| 12. | Tian Shan Science and Technology Industrial Park | No. 319 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China | Commercial | 40,331 | 68,375 | Superstructure | 100% | December 2015 |
| 13. | Weihai Tian Shan international Enterprise Base | Wendeng Economics Development Zone, Shandong Province, China | Industrial | 266,570 | 36,961 | Superstructure | 100% | December 2013 |
| **Subtotal** | | | | **1,968,812** | **784,467** | | | |

# Particular 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 | 9,276 | 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 |
| 3. | Contemporary Noble Territory | No. 9 Juxin Road, Xinhua District, Shijiazhuang, Hebei province, China | Commercial | 5,585 | 100% | Medium term |
| 4. | Sanhe Tian Shan International Enterprise Base | Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China | Apartment | 18,210 | 100% | Medium term |
| **Subtotal** | | | | **86,216** | | |

## 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 | 3,285 | 1 | 100% | Long term |
| 2. | Contemporary Noble Territory | No. 9 Juxin Road, Xinhua District, Shijiazhuang, Hebei province, China | Residential/ commercial | 6,733 | 1 | 100% | Long term |
| 3. | Tianjin Tian Shan Wonderful Waterside View (Phase I) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/ commercial | 42,723 | – | 100% | Long term |
| 4. | Tianjin Tian Shan Wonderful Waterside View (Phase II) | Xiaozhan Town, Jinnan District, Tianjin, China | Residential/ commercial | 14,578 | – | 100% | Long term |
| 5. | Chengde Tian Shan Wonderful Waters View | Cuiqiao Road, Shuangqiao District, Chengde City, Hebei Province, China | Residential/ commercial | 46,028 | 43 | 100% | Long term |
| 6. | Tian Shan Waterside View (Phase IV) | No. 218 Zhufeng Avenue, Shijiazhuang, Hebei Province, China | Residential/ commercial | 1,298 | 11 | 100% | Long term |
| 7. | Tian Shan Waterside View (Phases I to III) | No. 218 Zhufeng Avenue, Shijiazhuang, Hebei Province, China | Residential/ commercial | 1,253 | 13 | 100% | Long term |
| 8. | Luancheng Tian Shan Wonderful Waters View | No. 8 Yutai Road, Luancheng County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 141 | – | 100% | Long term |
| 9. | Tian Shan Long Hu Wan (Phase I) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 6,276 | – | 100% | Long term |
| 10. | Tian Shan Long Hu Wan (Phase II) | The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China | Residential/ commercial | 11,728 | – | 100% | Long term |
| 11. | Weihai Tian Shan Contemporary Noble Territory | Wendeng Economics Development Zone, Shandong Province, China | Residential/ commercial | 24,556 | – | 100% | Long term |
| 12. | Tian Shan Science and Technology | No. 319 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China | Commercial | 3,015 | – | 100% | Medium term |
| 13. | Sanhe Tian Shan International Enterprise Base | Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China | Apartment | 14,732 | – | 100% | Medium term |
| 14. | Tian Shan Guanlan Haoting | The south of Yu Hua Road, the north of Xiao Tan Village, China | Residential/ commercial | 551 | 172 | 100% | Medium term |
| **Subtotal** | | | | **176,897** | **241** | | |

## CONSOLIDATED INCOME STATEMENT

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2007<br>RMB'000 | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
| Turnover | 463,167 | 648,174 | 752,592 | 1,159,854 | **1,276,724** |
| Cost of sales | (284,578) | (382,607) | (502,391) | (780,783) | **(1,027,228)** |
| Gross profit | 178,589 | 265,567 | 250,201 | 379,071 | **249,496** |
| Other revenue | 3,907 | 1,747 | 2,017 | 9,937 | **11,312** |
| Other net income | – | – | – | – | **205,657** |
| Selling and marketing expenses | (16,345) | (38,626) | (34,949) | (65,647) | **(71,312)** |
| Administrative expenses | (46,127) | (63,687) | (46,638) | (77,098) | **(124,795)** |
| Profit from operations | 120,024 | 165,001 | 170,631 | 246,263 | **270,358** |
| Change in fair value of derivative financial instruments | – | 6,222 | 21,301 | – | **–** |
| Finance income | 5,241 | 1,389 | 886 | 2,206 | **1,381** |
| Finance expenses | (30,536) | (8,593) | (7,366) | (296) | **(608)** |
| Net financing (costs)/income | (25,295) | (982) | 14,821 | 1,910 | **773** |
| Profit before change in fair value of investment properties and income tax | 94,729 | 164,019 | 185,452 | 248,173 | **271,131** |
| Increase in fair value of investment properties | – | – | – | 94,201 | **60,159** |
| Profit before taxation | 94,729 | 164,019 | 185,452 | 342,374 | **331,290** |
| Income tax | (29,045) | (52,670) | (55,414) | (142,883) | **(113,254)** |
| Profit for the year | 65,684 | 111,349 | 130,038 | 199,491 | **218,036** |
| Earning per share (RMB cents) | | | | | |
| – Basic (note i) | 9.55 | 16.19 | 18.91 | 23.95 | **21.80** |
| – Diluted | N/A | N/A | N/A | N/A | **21.78** |

# FINANCIAL SUMMARY

## CONSOLIDATED ASSETS AND LIABILITIES

| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2007<br>RMB'000 | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
| Total non-current assets | 40,812 | 26,266 | 50,519 | 218,533 | **458,431** |
| Total current assets | 1,875,693 | 2,200,123 | 2,626,230 | 3,397,387 | **4,570,720** |
| Total assets | 1,916,505 | 2,226,389 | 2,676,749 | 3,615,920 | **5,029,151** |
| Total non-current liabilities | 61,770 | 494,207 | 182,400 | 451,213 | **546,639** |
| Total current liabilities | 1,547,208 | 1,294,177 | 1,926,320 | 2,036,149 | **3,148,047** |
| Total liabilities | 1,608,978 | 1,788,384 | 2,108,720 | 2,487,362 | **3,694,686** |
| Net assets | 307,527 | 438,005 | 568,029 | 1,128,558 | **1,334,465** |

Note:

(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.