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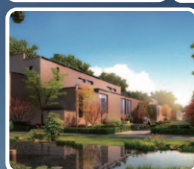
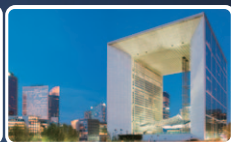
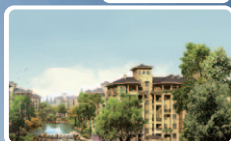
Tian Shan Development (Holding) Limited
天山發展(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2118

Interim Report **2012**

2012



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. TIAN Chong Hou (*Chairman*)

Mr. WU Zhen Shan

Mr. WU Zhen Ling

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 the Cayman Islands

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

Auditors

KPMG
Certified Public Accountants

Principal Share Register and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Register and Transfer Office

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

The board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011. The unaudited interim financial report set out on pages 13 to 36 has been reviewed by the audit committee and the independent auditors of the Company.

FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | | |
|------------------------------------|-------------------------------------|--------------------------------|----------------|
| | 2012 RMB'000 (Unaudited) | 2011 RMB'000 (Unaudited) | Change % |
| Turnover | 210,467 | 82,481 | 155.2% |
| Gross profit | 58,585 | 37,387 | 56.7% |
| Loss for the period | (27,140) | (34,117) | 20.5% |
| Basic loss per share (RMB cents) | (2.17) | (3.41) | 20.5% |
| Contracted sales during the period | 435,793 | 760,538 | (42.7)% |

BUSINESS REVIEW AND PROSPECTS

As at 30 June 2012, the Group had 13 property projects under development and available for sale primarily in Shijiazhuang, Tianjin, Shangdong, and Chengde with total planned gross floor area of approximately 2.0 million square meters (“sq.m.”).

The total contracted sales amount for the current period was RMB435.8 million (six months ended 30 June 2011: RMB760.5 million).

In the second half year 2012, the Group plans to develop a new residential property project (“*Tianshan Auspicious Lake*”) in Hi-technology Industry Development Zone, Shijiazhuang which has a site area of approximately 106,695 sq.m. and planned gross floor area of approximately 416,556 sq.m..

The Group continues its plan to bring in “leisure” and “tourism” elements to its residential and commercial property projects to enhance the property value. The waterpark (the “Tianjin Waterpark”) of *Tianjin Tian Shan Wonderful Waterside View* is in the development stage and is expected to be completed in early 2013. The estimated completion date was postponed due to bad weather experienced in the first half of the year. Tianjin Waterpark is planned to be opened to the residents of *Tianjin Tian Shan Wonderful Waterside View* and the public with payment of admission fees.

In addition to the residential (with ancillary commercial and leisure and tourism facilities) and industrial property projects, the Group intends to further diversify its property development portfolio to include commercial buildings, shopping malls, hotel facilities, etc. and to ensure a more healthy composition of property development portfolio in the long run.

In 2011, 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, Hi-technology Industry Development Zone, Shijiazhuang. 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 at 30 June 2012, the Group had invested RMB335.3 million in the CBD Project and recorded in the balance sheet as other receivables.

FINANCIAL REVIEW

The Group’s turnover increased by approximately 155.2% to approximately RMB210.5 million from RMB82.5 million as compared with the same period of last year. The increase in turnover was mainly attributable to increase in GFA delivered to the customers during the period under review. During the period, the Group’s turnover is principally derived from the sales and delivery of residential property projects, namely *Chengde Tian Shan Wonderful Waters View*, *Tianjin Tian Shan Wonderful Waterside View (Phases I and II)*, and *New Great Earldom*.

The cost of sales increased by approximately 236.8% to approximately RMB151.9 million from RMB45.1 million as compared with the six month period ended 30 June 2011. The increase was mainly commensurate with the increase in the turnover during the period under review.

As a result of the foregoing, the amount of the gross profit increased significantly by 56.7% to approximately RMB58.6 million from RMB37.4 million in the corresponding period of last year. The gross profit margin for the current period was decreased to approximately 27.8% as compared with 45.3% for the same period of the preceding year. The decrease in gross profit margin was mainly due to certain ancillary commercial properties of *Contemporary Noble Territory* and *New Great Earldom* were sold at relatively higher prices than those of the residential properties delivered and recognised in the same period of last year, while for the current period under review, the Group mainly delivered commercial properties of *Chengde Tian Shan Wonderful Waters View* and residential properties of *Contemporary Noble Territory* which were all sold at a normal price level.

The Group's other income increased to approximately RMB10.5 million from RMB3.1 million for the same period of preceding year. The increase was mainly due to more rental income earned from investment properties in the current period and an extraordinary interest income of RMB3.7 million earned from incidental recovery of a bad and doubtful debt during the current period.

The Group's selling and marketing expenses increased by approximately 24.7% to RMB27.9 million for the current period from RMB22.4 million for the same period of last year. The increase was primarily due to the increase in sales commission, which was in line with the increased in recognised sales revenue during the period. In addition, advertising and promotion expenses also slightly increased as there were more sales and promotion activities during the current period.

The Group's administrative expenses also increased by approximately 5.2% to RMB59.0 million from RMB56.0 million. The increase was primarily due to significant increase in staff costs by RMB11.8 million as a result of increase in general salary level and other general office expenses. The increase in administrative expenses was offset by the recovery of a bad and doubtful debt of RMB12.3 million during the period.

The Group's income tax expense increased to approximately RMB8.1 million from RMB2.8 million. The increase was primarily due to the increase in the Group's turnover during the current period.

As a result of the above, the Group recorded a net loss of approximately RMB27.1 million for the current period as compared with the net loss of approximately RMB34.1 million for the same period of last year.

Liquidity and Financial Resources

As at 30 June 2012, the Group had cash and cash equivalents of approximately RMB342.6 million (31 December 2011: RMB180.5 million). The cash and cash equivalents are primarily denominated in Renminbi.

As at 30 June 2012, the Group had total bank and other loans in aggregate of approximately RMB1,352.7 million (31 December 2011: RMB863.8 million) and total equity attributable to shareholders of RMB1,279.3 million (31 December 2011: RMB1,334.5 million). The gearing ratio (calculated as net debt divided by total equity) as of 30 June 2012 was 0.79 (31 December 2011: 0.51).

Employees' Remuneration and Benefits

As at 30 June 2012, the Group employed approximately 1,116 employees (31 December 2011: 1,374 employees). The Group offered competitive salary package, social insurance, pension scheme to its employees. A share option scheme has also been adopted for employees of the Group.

The Group will periodically review and adjust the salary level of its employees to ensure that the offered salary packages are competitive. In addition, training courses and seminars are provided for the employees at different level to enhance their knowledge.

Foreign Exchange and Currency Risk

As at 30 June 2012, the Group's businesses were principally conducted in Renminbi. Therefore, the Group did not expose to significant foreign currency exchange risks and the Group did not employ any financial instruments for hedging purposes.

Renminbi 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.

Substantial Acquisition and Disposal

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

Capital Expenditure

During the period under review, the Group incurred capital expenditure in the amount of approximately RMB746.2 million comprising primarily the Group's addition in property, plant and equipment, and the land and development costs of our property projects.

Charge on Assets and Contingent Liabilities

As at 30 June 2012, the Group had restricted cash of RMB43.2 million (31 December 2011: RMB33.7 million) deposited with certain banks as guarantee deposits against certain mortgage loan facilities granted by the banks to purchasers of the Group's properties. In addition, the Group's properties for sale, property, plant and equipment and investment properties of approximately RMB1,597.7 million (31 December 2011: RMB1,070.3 million) were secured against the bank and other loans of the Group.

The Group acted as a guarantor to the mortgage bank loans granted to certain purchasers of the Group's properties for mortgage bank loans of approximately RMB1,811.3 million (31 December 2011: RMB1,901.3 million).

In addition, as of 30 June 2012, the Group has pledged a parcel of land and the buildings thereon as partial security for certain bank loans in the aggregated amount of RMB22.3 million granted to Hebei Tianshan Industrial Group Construction Engineering Company Limited, a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The guarantee will be released upon the full repayment of the loans by Hebei Tianshan Industrial Group Construction Engineering Company Limited in February 2013.

SPECIAL DIVIDEND AND INTERIM DIVIDEND

The Board resolved to distribute a special dividend of HK1.0 cent (six months ended 30 June 2011: HK1.5 cents) per share. The special dividend will be paid in cash on or around Monday, 15 October 2012 to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 8 October 2012.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company confirms that, having made specific enquiry of all the directors of the Company (the "Directors"), the Directors have complied with the required standards as set out in the Model Code throughout the period under review.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2012.

AUDIT COMMITTEE

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

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

As at 30 June 2012, 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 were as follows:

1. Interests in the Company

(a) Shares

| Name of Director of the Company | 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 | 75.00% |
| WU Zhen Ling | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.00% |
| ZHANG Zhen Hai | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.00% |
| WU Zhen He | Interest of a controlled corporation | 750,000,000 (note 1) Long Position | 75.00% |

Note 1: The shares of the Company (the "Shares") are beneficially held by Newway Enterprises Limited ("Newway Enterprises"). Newway 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 Newway Enterprises. Since these four Directors exercise or control the exercise of entire voting right at general meetings of Newway Enterprises, each of them is deemed to be interested in the Shares held by Newway 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 30 June 2012, 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 30 June 2012, 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 i) | 9.99% |
| Hebei Province Construction & Investment Group Co., Ltd. ("Hebei Province Construction") | Interest of a controlled corporation | 99,998,000 (note i) | 9.99% |

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

Save as disclosed above, as at 30 June 2012, no person, other than the directors of the Company, whose interests are set out in the section “Interests and short positions of the Director and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations” above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

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

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

| Name or category of participant | At 1 January 2012 | Grant during the period | Exercised during the period | Forfeited during the period | At 30 June 2012 | Date of grant | Exercise period of the share options (note f) | Exercise price of share options (HK\$ per share) |
|---|-------------------------|-------------------------------|-----------------------------------|-----------------------------------|-----------------------|---------------|--|---|
| Connected persons | | | | | | | | |
| WU Lan Zhi (note a) | 191,000 | – | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| XU Lan Ying (note b) | 191,000 | – | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| FAN Yi Mei (note c) | 191,000 | – | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| GU Jing Gai (note d) | 191,000 | – | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| WU Lan Ping (note e) | 191,000 | – | – | – | 191,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| | 955,000 | – | – | – | 955,000 | | | |
| Other employees and grantees | | | | | | | | |
| In aggregate | 4,945,000 | – | – | (120,000) | 4,825,000 | 16.06.2010 | 16.01.2011 to 15.06.2020 | 0.70 |
| Total | 5,900,000 | – | – | (120,000) | 5,780,000 | | | |

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 executives in shares, underlying shares and debentures of the Company and its associated corporations" above.
- (b) XU Lan Ying is the spouse of WU Zhen Shan. The interest was also disclosed as an interest of WU Zhen Shan in the section "Interests and short positions of the Directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations" above.
- (c) FAN Yi Mei is the spouse of WU Zhen Ling. The interest was also disclosed as an interest of WU Zhen Ling in the section "Interests and short positions of the Directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations" above.
- (d) GU Jing Gai is the spouse of WU Zhen He. The interest was also disclosed as an interest of WU Zhen He in the section "Interests and short positions of the Directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations" above.
- (e) WU Lan Ping is the younger sister of WU Zhen Shan, WU Zhen 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 date of grant. 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

No share options were granted, exercised or cancelled by the Company under the share option scheme which has become effective on 15 July 2010 (the "Share Options Scheme") during the period under review and there were no outstanding share options under the Share Option Scheme as at 30 June 2012.

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

Hong Kong
30 August 2012

UNAUDITED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012

(Expressed in Renminbi)

| | | Six months ended 30 June | |
|---|------|--------------------------|-----------------|
| | Note | 2012 RMB'000 | 2011 RMB'000 |
| Turnover | 4 | 210,467 | 82,481 |
| Cost of sales | | (151,882) | (45,094) |
| Gross profit | | 58,585 | 37,387 |
| Other revenue | | 10,495 | 3,110 |
| Selling and marketing expenses | | (27,927) | (22,398) |
| Administrative expenses | | (58,963) | (56,041) |
| Loss from operations | | (17,810) | (37,942) |
| Finance income | | 826 | 694 |
| Finance expenses | | (2,106) | (4) |
| Net financing (expenses)/income | 5(a) | (1,280) | 690 |
| Loss before change in fair value of investment properties and income tax | | (19,090) | (37,252) |
| Increase in fair value of investment properties | | – | 5,974 |
| Loss before taxation | 5 | (19,090) | (31,278) |
| Income tax | 6 | (8,050) | (2,839) |
| Loss for the period | | (27,140) | (34,117) |
| Loss per share (RMB cents) | 8 | | |
| Basic | | (2.71) | (3.41) |
| Diluted | | (2.71) | (3.41) |

The notes on pages 20 to 36 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company and set out in note 7.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012

(Expressed in Renminbi)

| | | Six months ended 30 June | |
|---|------|--------------------------|-----------------|
| | Note | 2012 RMB'000 | 2011 RMB'000 |
| Loss for the period | | (27,140) | (34,117) |
| Other comprehensive income for the period | 9 | | |
| Exchange differences on translation of financial statements of foreign subsidiaries | | 5 | (804) |
| Total comprehensive income for the period | | (27,135) | (34,921) |

The notes on pages 20 to 36 form part of this interim financial report.

UNAUDITED CONSOLIDATED BALANCE SHEET

at 30 June 2012

(Expressed in Renminbi)

| | Note | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|--------------------------------|------|----------------------------------|--------------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 218,345 | 165,227 |
| Investment properties | 11 | 276,991 | 276,991 |
| Deferred tax assets | | 25,300 | 16,213 |
| | | 520,636 | 458,431 |
| Current assets | | | |
| Inventories | 12 | 3,922,456 | 3,386,255 |
| Trade and other receivables | 13 | 813,251 | 961,952 |
| Prepaid tax | | 37,303 | 8,300 |
| Restricted cash | 14 | 43,231 | 33,744 |
| Cash and cash equivalents | | 342,554 | 180,469 |
| | | 5,158,795 | 4,570,720 |
| TOTAL ASSETS | | 5,679,431 | 5,029,151 |
| EQUITY | | | |
| Share capital | 15 | 86,731 | 86,731 |
| Reserves | | 1,192,529 | 1,247,734 |
| SHAREHOLDERS' EQUITY | | 1,279,260 | 1,334,465 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Bank loans – secured | 16 | 81,000 | 365,800 |
| Other loans – secured | 17 | 540,850 | 135,675 |
| Deferred tax liabilities | | 46,624 | 45,164 |
| | | 668,474 | 546,639 |

UNAUDITED CONSOLIDATED BALANCE SHEET *(Continued)*

at 30 June 2012

(Expressed in Renminbi)

| | Note | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|--|------|----------------------------------|--------------------------------------|
| Current liabilities | | | |
| Bank loans – secured | 16 | 577,800 | 225,200 |
| Other loans – secured | 17 | 153,000 | 137,075 |
| Trade and other payables | 18 | 2,910,639 | 2,683,088 |
| Current taxation | | 90,258 | 102,684 |
| | | 3,731,697 | 3,148,047 |
| TOTAL LIABILITIES | | 4,400,171 | 3,694,686 |
| TOTAL EQUITY AND LIABILITIES | | 5,679,431 | 5,029,151 |
| NET CURRENT ASSETS | | 1,427,098 | 1,422,673 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,947,734 | 1,881,104 |

The notes on pages 20 to 36 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2012

(Expressed in Renminbi)

| | Attributable to equity holders of the Group | | | | | | | Total RMB'000 |
|---------------------------------------|---|-----------------------------|--------------------------------|--|--|---|--------------------------------|------------------|
| | Share capital RMB'000 (note 15) | Share premium RMB'000 | Exchange reserve RMB'000 | Other capital reserve RMB'000 | PRC statutory reserve RMB'000 | Share-based compensation reserve RMB'000 | Retained profits RMB'000 | |
| At 1 January 2011 | 86,731 | 271,634 | 49,148 | 110,070 | 118,972 | 1,051 | 490,952 | 1,128,558 |
| Loss for the period | - | - | - | - | - | - | (34,117) | (34,117) |
| Other comprehensive income | - | - | (804) | - | - | - | - | (804) |
| Total comprehensive income | - | - | (804) | - | - | - | (34,117) | (34,921) |
| Equity settled share-based payment | - | - | - | - | - | 632 | - | 632 |
| At 30 June 2011 | 86,731 | 271,634 | 48,344 | 110,070 | 118,972 | 1,683 | 456,835 | 1,094,269 |

| | Attributable to equity holders of the Group | | | | | | | Total RMB'000 |
|---------------------------------------|---|-----------------------------|--------------------------------|--|--|---|--------------------------------|------------------|
| | Share capital RMB'000 (note 15) | Share premium RMB'000 | Exchange reserve RMB'000 | Other capital reserve RMB'000 | PRC statutory reserve RMB'000 | Share-based compensation reserve RMB'000 | Retained profits RMB'000 | |
| At 1 July 2011 | 86,731 | 271,634 | 48,344 | 110,070 | 118,972 | 1,683 | 456,835 | 1,094,269 |
| Profit for the period | - | - | - | - | - | - | 252,153 | 252,153 |
| Other comprehensive income | - | - | (85) | - | - | - | - | (85) |
| Total comprehensive income | - | - | (85) | - | - | - | 252,153 | 252,068 |
| Transfer to statutory reserve | - | - | - | - | 28,029 | - | (28,029) | - |
| Equity settled share-based payment | - | - | - | - | - | 404 | - | 404 |
| Dividends declared and paid | - | (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 |

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

for the six months ended 30 June 2012

(Expressed in Renminbi)

| | Attributable to equity holders of the Group | | | | | | | Total RMB'000 |
|------------------------------------|---|-----------------------------|--------------------------------|--|--|---|--------------------------------|------------------|
| | Share capital RMB'000 (note 15) | Share premium RMB'000 | Exchange reserve RMB'000 | Other capital reserve RMB'000 | PRC statutory reserve RMB'000 | Share-based compensation reserve RMB'000 | Retained profits RMB'000 | |
| At 1 January 2012 | 86,731 | 259,358 | 48,259 | 110,070 | 147,001 | 2,087 | 680,959 | 1,334,465 |
| Loss for the period | - | - | - | - | - | - | (27,140) | (27,140) |
| Other comprehensive income | - | - | 5 | - | - | - | - | 5 |
| Total comprehensive income | - | - | 5 | - | - | - | (27,140) | (27,135) |
| Equity settled share-based payment | - | - | - | - | - | 403 | - | 403 |
| Dividends declared and paid | - | (28,473) | - | - | - | - | - | (28,473) |
| At 30 June 2012 | 86,731 | 230,885 | 48,264 | 110,070 | 147,001 | 2,490 | 653,819 | 1,279,260 |

The notes on pages 20 to 36 form part of this interim financial report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2012

(Expressed in Renminbi)

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Cash used in operations | (131,859) | (358,422) |
| Income tax paid | (57,106) | (65,377) |
| Net cash used in operating activities | (188,965) | (423,799) |
| Net cash used in investing activities | (56,599) | (42,849) |
| Net cash generated from financing activities | 407,632 | 289,651 |
| Net increase/(decrease) in cash and cash equivalents | 162,068 | (176,997) |
| Cash and cash equivalents at 1 January | 180,469 | 376,224 |
| Effect of foreign exchange rate changes | 17 | (798) |
| Cash and cash equivalents at 30 June | 342,554 | 198,429 |

The notes on pages 20 to 36 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

for the six months ended 30 June 2012

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 30 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included on pages 37 and 38.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2012.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to the International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and the Company. These include the amendments to IAS 12, *Income taxes – Deferred tax: recovery of underlying assets*, which the Group has already adopted in the prior period. None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

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

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

No geographic information is shown as the turnover and profit from operation of the Group is derived from activities in the People's Republic of China ("the PRC").

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 period is as follows:

| Six months ended 30 June | | |
|-------------------------------------|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Income from sales of properties | 210,467 | 76,530 |
| Revenue from construction contracts | – | 5,951 |
| | 210,467 | 82,481 |

Revenue from construction contracts represented income arising from development of industrial properties in accordance with designs provided by customers. No revenue from construction contracts was recognised during the period.

5 LOSS BEFORE TAXATION

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

| Six months ended 30 June | | |
|---|-----------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| (a) Net financing expenses/(income) | | |
| Interest income | (826) | (688) |
| Exchange gain | — | (6) |
| Finance income | (826) | (694) |
| Interest expense and other borrowing costs | 52,796 | 28,650 |
| Less: Interest and borrowing costs capitalised | (50,690) | (28,646) |
| Finance expenses | 2,106 | 4 |
| Net financing expenses/(income) | 1,280 | (690) |
| (b) Other items | | |
| Depreciation and amortisation | 3,966 | 2,232 |
| Reversal of provision for impairment losses on other receivables | (12,290) | (710) |

6 INCOME TAX

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Current tax | | |
| PRC Corporate Income Tax | 10,666 | 12,923 |
| Land Appreciation Tax | 5,011 | 3,690 |
| | 15,677 | 16,613 |
| Deferred tax | | |
| Revaluation of investment properties | – | 1,397 |
| Pre-sale of properties | (5,056) | (10,362) |
| Other temporary differences | (2,571) | (4,809) |
| | (7,627) | (13,774) |
| | 8,050 | 2,839 |

- (a) Pursuant to the rules and regulations of the British Virgin Islands ("the BVI") and the Cayman Islands, the Group is not subject to any income tax in the BVI and the Cayman Islands.
- (b) No Hong Kong Profits Tax has been provided for as the Group's Hong Kong operations have no estimated assessable profits during the year.
- (c) **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% (six months ended 30 June 2011: 13% to 15%) of their revenue in accordance with the authorised tax valuation method (核定徵收) approved by local tax bureau pursuant to the applicable PRC tax regulations. The tax rate was 25% (six months ended 30 June 2011: 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 at a CIT rate of 25% (six months ended 30 June 2011: 25%) on estimated assessable profit for the period.

6 INCOME TAX (Continued)

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

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

Certain subsidiaries of the Group were subject to LAT which is calculated based on 1% to 5% (six months ended 30 June 2011: 1% to 3%) of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

(e) Withholding tax

Withholding taxes are levied on the non PRC-resident entities in respect of dividend distribution arising from profit or PRC subsidiaries earned after 1 January 2008 at a rate of 10%. No deferred tax liabilities were recognised (2011: Nil) for the undistributed earnings of the Group's PRC subsidiaries earned for the six months ended 30 June 2012 since it is not probable that they will be distributed to their immediate holding company outside PRC in the foreseeable future.

7 DIVIDENDS

(a)

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Special dividend declared after the interim period of HK1.0 cent (2011: HK1.5 cents) per ordinary share, equivalent to RMB0.81 cent (2011: RMB1.23 cents) per ordinary share | 8,100 | 12,276 |

Pursuant to a board resolution passed, after the balance sheet date, on 30 August 2012, a special dividend of HK1.0 cent (2011: HK1.5 cents) per ordinary share was declared. The special dividend had not been recognised as a liability at the balance sheet date.

7 DIVIDENDS (Continued)

(b)

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK3.5 cents (equivalent to RMB2.84 cents) per ordinary share (2011: Nil) | 28,473 | — |

The board of directors does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: RMB Nil).

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholder of the Company of RMB27,140,000 (six months ended 30 June 2011: RMB34,117,000) and the weighted average of 1,000,000,000 ordinary shares (six months ended 30 June 2011: 1,000,000,000 ordinary shares) in issue during the interim period.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholder of the Company of RMB27,140,000 (six months ended 30 June 2011: RMB34,117,000) and the weighted average number of ordinary shares of 1,000,357,673 shares (six months ended 30 June 2011: 1,000,000,000 shares), calculated as follows:

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

| | Six month ended 30 June | |
|--|-------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Loss attributable to ordinary equity shareholders of the Company (basic and diluted) | 27,140 | 34,117 |

8 LOSS PER SHARE *(Continued)*

(b) Diluted loss per share *(Continued)*

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

| | Six month ended 30 June | |
|---|-------------------------|--------------|
| | 2012 '000 | 2011 '000 |
| Weighted average number of ordinary shares at 30 June | 1,000,000 | 1,000,000 |
| Effect of dilutive potential shares – shares options | 358 | – |
| Weighted average number of ordinary shares (diluted) at 30 June | 1,000,358 | 1,000,000 |

9 OTHER COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Exchange differences on translation of financial statements of foreign subsidiaries | 5 | (804) |

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

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group's additions in property, plant and equipment amounted to RMB58,137,000 (six months ended 30 June 2011: RMB122,417,000), including properties for sale with carrying amount of Nil (six months ended 30 June 2011: RMB81,445,000) transferred to property, plant and equipment during the period. Items of property, plant and equipment with a net book value of RMB1,039,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB218,000), resulting in a loss on disposal of RMB327,000 (six months ended 30 June 2011: gain of RMB157,000).

11 INVESTMENT PROPERTIES

During the six months ended 30 June 2012, no inventory (six months ended 30 June 2011: inventories with fair value of RMB13,800,000) was transferred to investment properties. The directors consider the carrying values of investment properties approximate their respective fair values as at 30 June 2012.

12 INVENTORIES

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Properties held for future development for sale | 501,631 | 287,958 |
| Properties under development for sale | 2,589,164 | 2,311,136 |
| Completed properties held for sale | 831,661 | 787,161 |
| | 3,922,456 | 3,386,255 |

In addition to properties for sale secured against the Group's bank and other loans as set out in notes 16 and 17, at 30 June 2012, properties for sale with a carrying value of RMB12,421,000 (31 December 2011: RMB7,400,000) was secured against banking facilities of RMB22,300,000 (31 December 2011: RMB16,300,000) of Hebei Tianshan Industrial Group Construction Engineering Company Limited ("Tianshan Construction"), a company wholly owned by the controlling shareholders of the Group.

13 TRADE AND OTHER RECEIVABLES

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Trade receivables (note (a)) | 13,220 | 18,352 |
| Deposits, prepayments and other receivables (note (b)) | 800,031 | 943,599 |
| Gross amount due from customers for contract work | – | 1 |
| | 813,251 | 961,952 |

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

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|--------------------------------------|----------------------------------|--------------------------------------|
| Current or less than 1 month overdue | 11,749 | 16,756 |
| 3 months to 1 year overdue | 1,471 | 1,596 |
| | 13,220 | 18,352 |

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

- (b) Included in deposits, prepayments and other receivables were prepayment for leasehold land costs of RMB233,478,000 (31 December 2011: RMB453,401,000).

At 30 June 2012, an amount of RMB335,000,000 (31 December 2011: RMB310,000,000) was paid as deposits for redevelopment of an village in Shijiazhuang and included in other receivables of the Group.

14 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.

15 SHARE CAPITAL

The details of the authorised and issued share capital are set out as follows:

| | At 30 June 2012 HK\$000 | At 31 December 2011 HK\$000 |
|--|----------------------------------|--------------------------------------|
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK\$0.1 each (2011: 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 (2011: 1,000,000,000 ordinary shares of HK\$0.1 each) | 100,000 | 100,000 |
| RMB equivalent (RMB'000) | 86,731 | 86,731 |

16 BANK LOANS – SECURED

(a) At 30 June 2012, bank loans were repayable as follows:

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|--------------------------------------|----------------------------------|--------------------------------------|
| Within one year or on demand | 577,800 | 225,200 |
| After one year but within two years | 81,000 | 90,300 |
| After two year but within five years | – | 275,500 |
| | 81,000 | 365,800 |
| | 658,800 | 591,000 |

(b) At 30 June 2012, assets of the Group secured against bank loans are analysed as follows:

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---------------------------------------|----------------------------------|--------------------------------------|
| Properties under development for sale | 316,997 | 330,314 |
| Completed properties held for sale | 209,807 | 185,990 |
| Property, plant and equipment | 80,979 | 80,979 |
| Investment properties | 68,084 | 160,024 |
| | 675,867 | 757,307 |

17 OTHER LOANS – SECURED

(a) At 30 June 2012, other loans were repayable as follows:

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|-------------------------------------|----------------------------------|--------------------------------------|
| Within one year or on demand | 153,000 | 137,075 |
| After one year but within two years | 540,850 | 135,675 |
| | 693,850 | 272,750 |

(b) At 30 June 2012, assets of the Group secured against other loans are analysed as follows:

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Properties held for future development for sale | 522,672 | 31,890 |
| Properties under development for sale | 327,002 | 262,250 |
| Completed properties held for sale | 72,194 | 18,840 |
| | 921,868 | 312,980 |

18 TRADE AND OTHER PAYABLES

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Trade payables (note (a)) | 58,702 | 87,758 |
| Receipts in advance (note (b)) | 1,408,031 | 1,104,803 |
| Other payables and accruals (note (c)) | 1,422,760 | 1,450,231 |
| Amounts due to ultimate holding company | 8,104 | 2,457 |
| Amounts due to related parties | 13,042 | 37,839 |
| | 2,910,639 | 2,683,088 |

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

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---------------------------------|----------------------------------|--------------------------------------|
| Due within 1 month or on demand | 58,702 | 87,758 |

- (b) Included in receipts in advance were deferred income which were expected to be recognised in profit or loss after more than one year amounted to RMB56,464,000 (31 December 2011: RMB49,171,000).
- (c) Included in other payables and accruals were accrued construction costs to Tianshan Construction amounted to RMB202,021,000 (31 December 2011: RMB206,669,000).

19 EQUITY SETTLED SHARE-BASED TRANSACTION

On 16 June 2010, the Company conditionally granted certain pre-IPO share options to connected persons, consultations, 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 number outstanding options at 30 June 2012 was 5,780,000 (31 December 2011: 5,900,000). No options were exercised, granted or lapsed during the six months ended 30 June 2012.

20 COMMITMENTS

Capital commitments outstanding at 30 June 2012 not provided for in the interim financial report are set out as follows:

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|-----------------------------------|--|--------------------------------------|
| Authorised but not contracted for | 5,376,263 | 6,307,329 |
| Contracted but not provided for | 2,715,524 | 2,148,966 |
| | 8,091,787 | 8,456,295 |

Capital commitments mainly related to land and development costs for the Group's properties under development and commitment on the redevelopment of an old village in Shijiazhuang as set out in note 13(b).

21 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 30 June 2012 are set out as follows:

| | At 30 June 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties | 1,811,300 | 1,901,300 |

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.

22 MATERIAL RELATED PARTY TRANSACTIONS

Other than those disclosed in notes 12, 18, 19 and 23 to the interim financial report, the Group had the following significant transactions with related parties:

| | Six months ended 30 June 2012 RMB'000 | 2011 RMB'000 |
|---|---|-----------------|
| Construction costs (note (i)) | 88,013 | 201,571 |
| Rental expenses (note (ii)) | 193 | 193 |
| Remuneration to key management personnel (note (iii)) | 1,456 | 1,383 |
| Guarantee fee income (note (iv)) | (231) | (570) |

22 MATERIAL RELATED PARTY TRANSACTIONS *(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 term 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) Remuneration to key management personnel of RMB1,456,000 (six months ended 30 June 2011: RMB1,383,000) represents salaries and fringe benefits paid to the directors of the Company.
- (iv) 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 12.
- (v) 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.
- (vi) 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 Development Limited ("Tian Shan Real Estate"), a subsidiary of the Group as licensee at no consideration.

23 NON-ADJUSTING POST BALANCE SHEET EVENT

On 24 August 2012, the Company and its subsidiary, Tian Shan Real Estate, jointly entered into an agreement ("the Agreement") with Tianshan Construction, pursuant to which the Company agreed to provide a repayment guarantee whereas Tian Shan Real Estate agreed to provide a repayment guarantee and charge over its investment properties with carrying value of RMB99,700,000, in favour of a bank for granting a revolving term loan facility of RMB53,000,000 to Tianshan Construction for a term of approximately three years from August 2012 to October 2015 at an interest rate of 130% per annum of the lending rate as published from time to time by The People's Bank of China.

23 NON-ADJUSTING POST BALANCE SHEET EVENT (Continued)

Under the Agreement, Tianshan Construction will pay to the Company and Tian Shan Real Estate a fee of RMB6,000,000 for the aforementioned guarantees and charge-over investment properties. In addition, Tianshan Construction also undertakes to repay to the Company or Tian Shan Real Estate in the event of any payments made by the Company or Tianshan Real Estate to the bank under the aforementioned guarantees and charge over investment properties.

The above transaction is a related party transaction and also constitutes a connected party transaction as defined under the Listing Rules. The provision of repayment guarantees and charge over investment properties under the Agreement is subject to shareholders' approval at an extraordinary general meeting to be convened. Further details of the transaction are set out in the Company's announcement dated 24 August 2012.

24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD BEGINNING 1 JANUARY 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for accounting period beginning 1 January 2012 and which have not been adopted in the interim financial report. These include the following which may be relevant to the Group.

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

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it had concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.



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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 36 which comprises the consolidated balance sheet of Tian Shan Development (Holding) Limited as of 30 June 2012 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

30 August 2012