



Poly Property Group Co., Limited
保利置業集團有限公司

Stock Code: 119

INTERIM REPORT 2012



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CORPORATE INFORMATION

Board of directors

Executive directors

CHEN Hong Sheng
WANG Xu
XUE Ming (*Chairman and
Managing Director*)
ZHANG Wan Shun
YE Li Wen

Non-executive director

IP Chun Chung, Robert*

Independent non-executive directors

YAO Kang, J.P.*
CHOY Shu Kwan*
LEUNG Sau Fan, Sylvia*

* *members of the Audit Committee*

Company secretary

TAI Kar Lei

Registered office

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18 Harcourt Road
Hong Kong

Auditor

PKF

Investor relations consultant

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Share registrars and transfer office

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Investor Services Limited
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Stock code

119

Company website

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MANAGEMENT DISCUSSION AND ANALYSIS

Overall Operating Conditions

Poly Property Group Co., Limited (the “Company”) and its subsidiaries (the “Group”) recorded a turnover of HK\$6,475 million for the first half of 2012, representing an increase of HK\$2,278 million or 54.3% from the HK\$4,197 million recorded in the corresponding period of 2011. Profit attributable to shareholders for the period was HK\$1,070 million, an increase of HK\$177 million or 19.8% from HK\$893 million in the corresponding period in 2011. Basic earnings per share were HK29.65 cents, compared to HK24.74 cents in the corresponding period of 2011, representing an increase of HK4.91 cents or 19.8%. Diluted earnings per share were HK29.55 cents, an increase of 20.2% from the HK24.59 cents in the corresponding period of 2011. As at 30th June, 2012, shareholders’ equity had increased by 4.3% to HK\$25,741 million, compared to HK\$24,671 million as at 31st December, 2011, while net book asset value per share was HK\$7.13, an increase of 4.2% from HK\$6.84 at the end of last year.

Business Review

In the first quarter of 2012, the Central Government maintained its property tightening policies, designed to facilitate the re-establishment of reasonable home prices and to promote healthy market development. Owing to the stringent regulatory environment, property investment demand was restrained, speculative housing demand was limited and the housing market remained settled. Home buyers returned to the market in the second quarter, as a result of the Central Government’s support for reasonable home-purchase demand and financial easing. The volume of home-sale transactions and the overall market sentiment improved throughout the period. On the whole, the regulatory policies helped to maintain stability of the market without relaxing the core principles of the home purchase restrictions and curbed investment and speculative demand.

Despite the heavily regulated and evolving market, the Group continued to be responsive to industry complexities and challenges; improved its core competitiveness and focused its efforts on achieving sustainable growth. The Group centred its focus on property sales during the period and as such, continued to maintain sensitivity to changing market situations and closely monitor market trends. Sales initiatives were implemented to leverage upon the resilient market during a window of opportunity, which actively fuelled the Group’s market share. Sales initiatives included responding to client’s needs; adopting differential product and brand strategies; optimizing product type; enhancing a price-for-value approach; implementing a flexible sales strategy and launching a comprehensive branding campaign. Contracted property sales achieved during the period reached record levels once again. Subscriptions to more than 10,000 residential units were recorded, exceeding a subscribed area of 1 million square metres for the first 6 months of the year. Subscription and contracted property sales both topped RMB 10 billion during the period. Separately, subscription sales and contracted sales each surpassed RMB 5 billion in the month of June. Overall, property sales progressed in line with the annual sales plan and cemented the Group’s position within the industry.

While driving its property sales capabilities, the Group remained prudent in terms of risk control, continuing to tighten the scale of its investments in and expansion of new projects. The Group did not enter any new locations and only one project was acquired in the first half of the year, a significant reduction in comparison to the same period last year. This project is located within the Groups current foothold and will be developed as ordinary commodity housing. Construction work on the project has already commenced, demonstrating the Group's rapid rolling development strategy. The Group has also fine-tuned the scale of construction in some of its projects, in line with pace of sales and development progress. The Group also reorganised the pace of construction development with respect to market dynamics, to prepare for project launches in the second half of the year.

In terms of risk management, the Group safeguards its cash flow and sound business operations, with cash collection from property sales being one of the more important tasks. A rebound in the market and monetary policy adjustments provided favourable opportunities for the Group to secure cash collections in an orderly manner. The Group was able to realise its financing plan by prioritising bank development loans and actively expanding various financing channels. The Group also enhanced its credit structures and maintained financing costs at reasonable level throughout the period. Endeavours to achieve cost reduction and operational efficiency in order to enhance the Groups' core competitiveness were also adopted in response to market conditions. The Group continued to strengthen its management capabilities, focusing on the optimization of cost efficiency, streamlining operational structures and enhancing information system, in particular.

Looking ahead to the second half of the year, property tightening policies are expected to remain relatively steady and current market trends will not change fundamentally. With the Central Government supporting genuine homebuyer demand, the Group has crucially marked ordinary residential housing products as the major contributor to its sales performance and its targets achieved in the first six months of the year. The Group will continue to increase the supply of ordinary commodity homes and will launch more small-to-medium-sized housing in the second half of the year, catering to genuine mass-market demand. By managing a realistic pace of sale and applying flexible pricing strategies, the Group is confident that it can achieve its sales target for the year.

Property Sales

The Group recorded contracted sales of approximately 1.1 million square metres during the period, totalling RMB10.1 billion, or 63% of the Group's RMB16 billion annual sales target.

The Group has launched a total of 40 projects for sale during the first half of the year. Among which, eight projects were debut projects. These include, Guangzhou Poly Zephyr City, Guangzhou Poly Golf Shire, Foshan Poly Cullinan Garden, Ningbo Poly City, Kunming Poly Lakeside Mansion, Yantai Poly Champs Elysees Mansion, Weihai Poly Triumph Mansion and Guiyang Poly The Place of A Lake. Thanks to reasonable pricing and accurate product positioning, subscription rates were maintained at over 80%. Yantai Poly Champs Elysees Mansion and Weihai Poly Triumph Mansion represent the Group's initial presence in Yantai and Weihai respectively. 500 residential units of the two projects were first marketed in late May and were well received. Debut subscriptions totalled 378 units, or RMB 416 million in sales, further demonstrating the Group's nationwide brand influence and capabilities.

The Yangtze River Delta region accounted for 30% of contracted sales during the first six months of the year, southwestern region accounted for 31%, the Pearl River Delta region, 19% and other regions 20%.

Region and respective projects	Contracted sales* (RMB million)	Percentage of total contracted sales (%)
Yangtze River Delta Region	2,972	30%
Shanghai	1,767	
Ningbo	664	
Suzhou/Hangzhou	541	
Pearl River Delta Region	1,929	19%
Guangzhou	1,122	
Shenzhen/Huizhou	472	
Foshan	335	
Southwestern Region	3,150	31%
Guiyang	1,720	
Zunyi	574	
Nanning	477	
Liuzhou/Kunming/Chongqing	379	
Other Regions	1,968	20%
Wuhan	765	
Jinan	558	
Yantai/Weihai	346	
Harbin	299	
Total	10,019	

*Note: excluding sales of car parking spaces

The Group plans to launch about 7 new projects for sale in the second half of the year, namely Shanghai Poly Felicity, Shanghai Poly Elegant Mansion, Shanghai Poly Star Island, Ningbo Poly Jordan International, Suzhou Poly West Bank Villa, Nanning Poly Aegean Sea and Wuhan Poly Park.

Commencement of New Construction Projects

In the first half of the year, the Group commenced construction on 10 projects with a gross floor area of approximately 1,190,000 square metres. Among these, was the Poly Jinan Center, which the Group acquired in March and where the first phase of construction commenced in May.

As of 30th June 2012, the Group held a total of 44 projects under construction, with a gross floor area of approximately 10,680,000 square metres.

Project	Gross floor area of commenced construction (‘000 square metres)	Group’s Interest (%)
Ningbo Poly Jordan International	135	100%
Huizhou Poly Deutch Kultur	11	80%
Guiyang Poly Hot Spring Newisland	21	66.5%
Guiyang Poly Spring Street	21	66.5%
Guiyang Poly Park 2010	40	70%
Zunyi Poly Metropolis of Future	380	35.7%
Wuhan Poly City	368	68%
Jinan Poly Center	114	85%
Yantai Poly Champs Elysees Mansion	50	100%
Weihai Poly Triumph Mansion	50	100%
Total:	1,190	

Region	Gross floor area of commenced construction (‘000 square metres)	Percentage of total gross floor area of project under construction (%)
Yangtze River Delta Region	135	11%
Pearl River Delta Region	11	1%
Southwestern Region	462	39%
Other Regions	582	49%
Total for the first half of the year	<u>1,190</u>	

Summary of newly commenced project

1. *Jinan Poly Center*

The Jinan Poly Center is situated in the Weiyin District of Jinan, where the Jinan west city’s hundred-year-old commercial port is located. The location places the project in a strong commercial setting. Furthermore, the project is only 6 km away from Jinan Station (West), on the Beijing-Shanghai High-speed Rail, and adjoins established ancillary facilities nearby. The current portion, Phase I of the project, has a site area of approximately 19,000 sq. m., and a total gross floor area of about 114,000 sq. m. The project will be developed into an integrated community of residences, apartments, commercial buildings and offices.



Projects Sales Recognised

In the first half of the year, the Group recognised sales of RMB5.13 billion from property development and the respective recognised area was approximately 488,000 square metres. The breakdown of the recognised amount for each project is as follows:

Region with respective projects	Sales recognised in the first half of 2012 (RMB million)	Percentage of total sales recognised (%)
Yangtze River Delta Region	2,107	41%
1. Shanghai Poly Lakeside Garden	886	
2. Shanghai Poly Plaza	784	
3. Shanghai Poly Royal Garden	369	
4. Shanghai Poly Town	59	
5. Shanghai Poly Villa Garden	9	
Pearl River Delta Region	513	10%
6. Foshan Poly Prestige City	466	
7. Huizhou Poly Deutch Kultur	47	
Southwestern Region	493	10%
8. Nanning Poly Cresendo	62	
9. Nanning Poly Landscape	43	
10. Nanning Poly Century	2	
11. Nanning Poly Phoenixia Garden	2	
12. Guiyang Poly Hot Spring Newisland	168	
13. Guiyang Poly Spring Street	116	
14. Guiyang Poly Clouds Hill International	36	
15. Kunming Poly Sunny Lake & Splendid Life	49	
16. Chongqing Poly Spring Villa	15	
Other Regions	2,013	39%
17. Wuhan Poly Royal Palace	1,695	
18. Jinan Poly Daming Lake	267	
19. Harbin Poly The Water's Fragrant Dike	32	
20. Poly Harbin Contemporary No. 9 Park Life	19	
Total:	5,126	100%

Land Reserves

The Group maintained a more prudent investment strategy during the first six month of the year, adding only one land parcel in Jinan to its portfolio. The total site area of this land is approximately 19,000 square metres, with a planned gross floor area of approximately 114,000 square metres. The acquisition will enable the Group to further enhance its regional portfolio for a reasonable land purchase cost. Construction on the land has already commenced.

Land Reserves	Proposed properties under planning	Total site area (‘000 square metres)	Total planned gross floor area (‘000 square metres)	Interests attributable to the Group
Jinan Poly Center	Residential	19.3	114	85%
Total:		19.3	114	

As of 30 June 2012, The Group’s land bank covered 20 cities with a total site area of approximately 8,580,000 square metres and a planned gross floor area (including projects under construction) of approximately 22,710,000 square metres. Land Use Rights Certificates or Confirmation of Transaction Notices were obtained for each land parcel acquired.

Investment Properties

The Group has various investment properties and hotels located in first-tier cities and second-tier provincial capitals. The gross floor area of these properties totals approximately 470,000 square metres, of which 400,000 square metres are attribute to the Group.

The occupancy rate of the Group’s office buildings and shopping malls remained stable in the first half of 2012. Both occupancy rates and rental rates improved in comparison to the corresponding period last year. As for hotel operations, Beijing Poly Plaza, Hubei Poly White Rose Hotel and Regal Poly Guiyang Hotel also maintained satisfactory occupancy rates.

Location	Project	Gross floor area ('000 square metres)	Interests attributable to the Group (%)	Property category
Shanghai	Shanghai Stock Exchange Building (portion)	48	100%	Office building
Shanghai	Shanghai Poly Plaza (main building and basement)	57	90%	Office building and commercial
Beijing	Beijing Poly Plaza	95	75%	Office building, hotel and theatre
Beijing	Beijing Legend Garden Villas (portion)	24	51%	Apartment, villa and others
Guangzhou	Guangzhou Citic Plaza (portion)	38	60%	Office building
Shenzhen	Shenzhen Poly Cultural Plaza (portion)	135	100%	Shopping mall and theatre
Wuhan	Hubei Poly White Rose Hotel	34	100%	Hotel
Guiyang	Regal Poly Guiyang Hotel	39	66.5%	Hotel
	Total:	470		

Property Management

The Group holds various property management companies which engage in the management of residential properties, hotels and high-end properties. The companies have received numerous titles and honours, including the honorary titles of quality, services and the integrity of a model unit.

In the first half of 2012, the Group's property management companies realized an income of RMB87.34 million from 99 property projects with an aggregate gross floor area of 13,600,000 square metres under management. These properties include office buildings, hotels, shopping malls, villas and residences.



FINANCIAL REVIEW

Liquidity and Capital Structure

As at 30th June, 2012, the shareholders' equity of the Group amounted to HK\$25,740,560,000 (31st December, 2011: HK\$24,670,940,000), while the net asset value per share was HK\$7.13 (31st December, 2011: HK\$6.84). As at 30th June, 2012, the Group's gearing ratio (on the basis of the amount of total liabilities divided by total assets) was 72% (31st December, 2011: 72%).

As at 30th June, 2012, the Group had outstanding bank and other borrowings of HK\$43,432,191,000. In terms of maturity, the outstanding bank and other borrowings can be divided into HK\$17,225,299,000 (40%) to be repaid within one year, HK\$13,567,368,000 (31%) to be repaid after one year but within two years, HK\$11,142,302,000 (26%) to be repaid after two years but within five years and HK\$1,497,222,000 (3%) to be repaid after five years. In terms of currency denomination, the outstanding bank and other borrowings can be divided into HK\$41,755,191,000 (96%) in Renminbi and HK\$1,677,000,000 (4%) in United State dollars.

20% of the bank and other borrowings of the Group are subject to fixed interest rates and the remaining 80% are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 30th June, 2012, the Group had net current assets of HK\$42,218,605,000 and total bank balances of HK\$13,761,783,000 (31st December, 2011: HK\$39,576,303,000 and HK\$12,621,765,000 respectively). With the available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, United State dollars and Renminbi. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimised via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. The management believes that the foreign exchange rate between Hong Kong dollars and United State dollars is relatively stable. On the other hand, the exchange rate between Hong Kong dollars and Renminbi during the period under review is also relatively stable and the management believes that this situation will continue in the foreseeable future. In this regard, the Group believes that its exposure to foreign exchange risks is minimal.

Pledge of Assets

As at 30th June, 2012, the carrying value of the Group's assets which were pledged to secure credit facilities granted to the Group are as follows:

	The Group	
	30th June, 2012	31st December, 2011
	HK\$'000	HK\$'000
Investment properties	3,195,240	2,729,734
Hotel properties	1,195,432	685,555
Buildings	246,625	791,167
Prepaid lease payments	386,164	391,989
Properties under development	28,521,968	16,842,914
Properties held for sale	521,343	1,298,174
Leasehold land	79,607	80,759
Bank deposits	177,034	326,131
	34,323,413	23,146,423

In addition to above pledge of assets, as at 30th June, 2012, the Group's interests in certain subsidiaries were pledged to secure credit facilities granted to the Group. The details of net assets value of subsidiaries are as follows:

	The Group	
	30th June, 2012	31st December, 2011
	HK\$'000	HK\$'000
Total assets	13,498,682	15,981,851
Total liabilities	(11,673,741)	(12,435,220)
	1,824,941	3,546,631

There are duplication between the carrying value of the Group's assets and the Group's interests in certain subsidiaries being pledged.

Contingent Liabilities

The Group arranged mortgage loan facilities with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayment. The maximum guarantees given to banks amount to HK\$12,169,209,000 as at 30th June, 2012 (31st December, 2011: HK\$10,378,907,000). Such guarantees will terminate upon the earlier of (i) issue of the real estate ownership certificate and (ii) the satisfaction of the mortgage loans by the buyers of the properties. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors. The directors also consider that the fair 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.

STAFF

As at 30th June, 2012, the Group employed 6,381 (30th June, 2011: 5,519) staff with remuneration for the period amounted to approximately HK\$276,419,000. The Group provides its staff with various benefits including year-ended double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.



INTERIM RESULTS

The directors (the “Directors”) of Poly Property Group Co., Limited (the “Company”, formerly known as Poly (Hong Kong) Investments Limited) hereby announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2012 with comparative figures for the six months ended 30th June, 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30th June,	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenue	3	6,474,847	4,196,720
Cost of sales		(4,108,141)	(2,407,167)
Gross profit		2,366,706	1,789,553
Other income		119,409	258,408
Selling expenses		(225,101)	(184,600)
Administrative expenses		(508,770)	(376,729)
Decrease in fair value of held-for-trading investments		(254)	(909)
Increase in fair value of investment properties		203,818	16,471
Gain on disposal of available-for-sale investments		–	151,975
Gain on disposal of interest in an associate	15	–	95,249
Finance costs		(142,220)	(190,777)
Share of results of a jointly controlled entity		(4,109)	(2,534)
Share of results of associates		7,986	5,086
Profit before taxation	4	1,817,465	1,561,193
Income tax expense	5	(659,813)	(638,783)
Profit for the period		1,157,652	922,410
Attributable to:			
Owners of the Company		1,069,884	892,871
Non-controlling interests		87,768	29,539
		1,157,652	922,410
Dividends	6	–	559,308
Earnings per share	7		
– Basic		29.65 cents	24.74 cents
– Diluted		29.55 cents	24.59 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30th June,	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Profit for the period	1,157,652	922,410
Other comprehensive income		
Exchange differences arising on translation of foreign operations	10	209,904
Change in fair value of available-for-sale investments	(15,529)	80,369
Surplus arising on revaluation of properties	23,119	7,332
Investment revaluation reserve released on disposal of available-for-sale investments	–	(36,535)
Other comprehensive income before tax effect	7,600	261,070
Deferred tax liability arising on revaluation of properties	(5,780)	(1,833)
Other comprehensive income for the period, net of tax	1,820	259,237
Total comprehensive income for the period	1,159,472	1,181,647
Attributable to:		
Owners of the Company	1,066,810	1,124,621
Non-controlling interests	92,662	57,026
	1,159,472	1,181,647

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30th June, 2012 HK\$'000 (Unaudited)	31st December, 2011 HK\$'000 (Audited)
Non-Current Assets			
Investment properties	9	6,705,389	6,578,020
Property, plant and equipment	9	1,977,364	1,995,829
Prepaid lease payments – non-current portion		404,855	411,287
Goodwill		554,692	804,890
Interests in associates		110,459	102,473
Interest in a jointly controlled entity		1,485	1,646
Available-for-sale investments		132,854	148,383
Club membership		1,226	1,226
Deposits paid for acquisition of land use rights		3,090,614	3,032,591
Deposits paid for acquisition of a subsidiary		246,914	246,914
Deferred tax assets		234,783	208,671
		13,460,635	13,531,930
Current Assets			
Properties under development		64,566,863	60,359,693
Properties held for sale		6,017,639	5,895,473
Other inventories		86,642	57,071
Trade and other receivables	10	2,883,858	1,596,981
Prepaid lease payments – current portion		11,565	11,565
Short-term loan receivables		185,185	185,185
Held-for-trading investments		528	782
Deposits paid for acquisition of a property development project		190,894	125,236
Amounts due from fellow subsidiaries	11(a)	33,989	34,566
Amounts due from non-controlling shareholders of subsidiaries		846,808	790,947
Amounts due from related companies		24,756	7,407
Taxation recoverable		420,452	288,631
Pledged bank deposits		177,034	326,131
Bank balances, deposits and cash		13,584,749	12,295,634
		89,030,962	81,975,302

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30th June, 2012 HK\$'000 (Unaudited)	31st December, 2011 HK\$'000 (Audited)
Current Liabilities			
Trade and other payables	12	6,041,761	6,168,692
Pre-sale deposits		15,673,375	11,944,749
Property rental deposits		90,422	91,248
Amounts due to fellow subsidiaries	11(a)	2,118,705	2,535,024
Amount due to an intermediate holding company	11(b)	1,058,782	3,873,396
Amount due to the ultimate holding company	11(c)	427,236	434,064
Amounts due to non-controlling shareholders of subsidiaries		2,561,301	2,291,217
Amount due to an associate		74,074	74,074
Amount due to a related company		–	1,867
Taxation payable		1,541,402	1,882,792
Bank and other borrowings – due within one year	13	17,225,299	13,101,876
		46,812,357	42,398,999
Net Current Assets		42,218,605	39,576,303
Total Assets Less Current Liabilities		55,679,240	53,108,233
Capital and Reserves			
Share capital	14	1,804,219	1,804,219
Reserves		23,936,341	22,866,721
Equity attributable to owners of the Company		25,740,560	24,670,940
Non-controlling interests		2,608,813	2,500,812
Total Equity		28,349,373	27,171,752
Non-Current Liabilities			
Bank and other borrowings – due after one year	13	26,206,892	24,857,356
Loan from a fellow subsidiary		215,933	209,644
Deferred tax liabilities		907,042	869,481
		27,329,867	25,936,481
		55,679,240	53,108,233

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2012

	Attributable to owners of the Company														
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	PRC statutory reserves HK\$'000	Investment revaluation reserve HK\$'000	Other capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Other reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 2012	1,804,219	15,621,560	42,177	72,691	1,279,603	23,917	557,351	(4,351)	307,485	32,612	(77,199)	5,010,875	24,670,940	2,500,812	27,171,752
Total comprehensive income for the period	-	-	-	12,445	10	-	-	(15,529)	-	-	-	1,069,884	1,066,810	92,662	1,159,472
Transfer	-	-	-	-	-	-	422	-	-	-	-	(422)	-	-	-
Partial disposal of interest in a subsidiary without loss of control	-	-	-	-	-	-	-	-	-	-	2,810	-	2,810	15,339	18,149
At 30th June, 2012	1,804,219	15,621,560	42,177	85,136	1,279,613	23,917	557,773	(19,880)	307,485	32,612	(74,389)	6,080,337	25,740,560	2,608,813	28,349,373

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2011

	Attributable to owners of the Company														Non-controlling interests	Total
	Share capital	Share premium	Share option reserve	Hotel properties revaluation reserve	Translation reserve	Capital redemption reserve	PRC statutory reserves	Investment revaluation reserve	Other capital reserve	Asset revaluation reserve	Other reserve	Accumulated profits	Total			
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1st January, 2011	1,804,219	15,621,564	42,177	80,413	758,525	23,917	291,177	74,502	307,485	21,446	(74,496)	3,059,238	22,010,167	1,819,329	23,829,496	
Total comprehensive income for the period	-	-	-	4,382	183,534	-	-	43,834	-	-	-	892,871	1,124,621	57,026	1,181,647	
Share issue expenses	-	(4)	-	-	-	-	-	-	-	-	-	-	(4)	-	(4)	
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(559,308)	(559,308)	-	(559,308)	
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(40,072)	(40,072)	
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	2,630	2,630	
Capital contribution by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	64,354	64,354	
At 30th June, 2011	1,804,219	15,621,560	42,177	84,795	942,059	23,917	291,177	118,336	307,485	21,446	(74,496)	3,392,801	22,575,476	1,903,267	24,478,743	



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Net cash used in operating activities	(1,769,007)	(10,945,491)
Net cash from/(used in) investing activities	215,246	(263,777)
Net cash from financing activities	2,846,149	9,173,089
Net increase/(decrease) in cash and cash equivalents	1,292,388	(2,036,179)
Cash and cash equivalents at beginning of the period	12,295,634	15,872,810
Effect of foreign exchange rate change	(3,273)	194,037
Cash and cash equivalents at end of the period	13,584,749	14,030,668
Analysis of the balance of cash and cash equivalents, represented by – bank balances, deposits and cash	13,584,749	14,030,668

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

A number of new or revised standards, amendments and interpretations are effective for the financial year beginning on 1st January, 2012. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31st December, 2011.

In the current interim period, the Group has applied the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group's financial year beginning 1st January, 2012.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 19 (2011)	Employee Benefits ²
HKAS 27	Separate Financial Statements ²
HKAS 28	Investments in Associates and Joint Ventures ²
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ³
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
Annual improvements to HKFRSs (2009-2011)	Amendments to HKAS 1, HKAS 16 and HKAS 32 ²

¹ Effective for annual periods beginning on or after 1st July, 2012

² Effective for annual periods beginning on or after 1st January, 2013

³ Effective for annual periods beginning on or after 1st January, 2014

⁴ Effective for annual periods beginning on or after 1st January, 2015

The Group is in the process of making an assessment of what the impact of these amendments 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 financial statements.

3. Revenue and segment information

The Group's reportable segments under HKFRS 8 are as follows:

For the six months ended 30th June, 2012

	Property development business HK\$'000	Property investment and management HK\$'000	Hotel operations HK\$'000	Other operations HK\$'000	Elimi- nations HK\$'000	Total HK\$'000
REVENUE						
External revenue	6,010,945	299,511	94,794	69,597	–	6,474,847
Inter-segment revenue*	–	3,543	–	–	(3,543)	–
Total revenue	6,010,945	303,054	94,794	69,597	(3,543)	6,474,847
SEGMENT RESULT	1,616,012	339,940	(15,389)	22,782	–	1,963,345
Unallocated income						34,439
Unallocated expenses						(41,976)
Finance costs						(142,220)
Share of results of a jointly controlled entity				(4,109)		(4,109)
Share of results of associates	7,986					7,986
Profit before taxation						1,817,465
Income tax expense						(659,813)
Profit for the period						1,157,652

* *Inter-segment revenue were charged with reference to prices charged to external parties for similar services and products.*

For the six months ended 30th June, 2011

	Property development business HK\$'000	Property investment and management HK\$'000	Hotel operations HK\$'000	Other operations HK\$'000	Elimi- nations HK\$'000	Total HK\$'000
REVENUE						
External revenue	3,819,215	231,814	86,909	58,782	–	4,196,720
Inter-segment revenue*	1,976	1,104	–	322,809	(325,889)	–
Total revenue	3,821,191	232,918	86,909	381,591	(325,889)	4,196,720
SEGMENT RESULT						
	1,201,200	112,914	3,728	166,087	–	1,483,929
Unallocated income						212,308
Unallocated expenses						(42,068)
Gain on disposal of interest in an associate	95,249					95,249
Finance costs						(190,777)
Share of results of a jointly controlled entity				(2,534)		(2,534)
Share of results of associates	5,086					5,086
Profit before taxation						1,561,193
Income tax expense						(638,783)
Profit for the period						922,410

* *Inter-segment revenue were charged with reference to prices charged to external parties for similar services and products.*

4. Profit before taxation

	Six months ended	
	30th June, 2012 HK\$'000	30th June, 2011 HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	6,432	4,542
Depreciation and amortisation of property, plant and equipment	65,876	40,427
Share of tax of associates (included in share of results of associates)	–	–
Gain on disposal of investment properties	39,477	–

5. Income tax expense

	Six months ended	
	30th June, 2012 HK\$'000	30th June, 2011 HK\$'000
The charge comprises:		
Hong Kong profits tax calculated at 16.5% (six months ended 30th June, 2011: 16.5%) of the estimated assessable profits for the period	–	–
PRC enterprise income tax	406,696	384,699
	406,696	384,699
Land appreciation tax	247,448	247,988
Deferred taxation	5,669	6,096
	659,813	638,783

Hong Kong profits tax has not been provided as the Group has no estimated assessable profits which were earned in or derived from Hong Kong during the period.

PRC enterprise income tax is calculated in accordance with the relevant laws and regulations in the PRC.

6. Dividends

	Six months ended	
	30th June, 2012 HK\$'000	30th June, 2011 HK\$'000
2010 final dividend of HK\$0.155 per share	–	559,308

The Directors have decided not to declare any interim dividend for the six months ended 30th June, 2012 (2011: HK\$nil).

7. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30th June, 2012 is based on the following data:

	Six months ended	
	30th June, 2012	30th June, 2011
	HK\$'000	HK\$'000
Earnings:		
Profit for the period attributable to owners of the Company	1,069,884	892,871
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,608,437,046	3,608,437,046
Effect of dilutive potential ordinary shares on share options	11,641,267	23,075,411
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,620,078,313	3,631,512,457

8. Transfer to and from reserves

During the six months ended 30th June, 2012, the Group's subsidiaries in the PRC appropriate net of non-controlling interests' share of approximately HK\$422,000 out of accumulated profits to the PRC statutory reserves (2011: HK\$nil).

9. Movements in investment properties and property, plant and equipment

During the period, the additions to the Group's property, plant and equipment amounted to approximately HK\$28 million, which included capital expenditure paid for construction in progress, renovation work and additions of motor vehicles and furniture and fixture. The depreciation charges of HK\$66 million was noted. Out of which, HK\$23 million hotel properties depreciation charges was eliminated based on revaluation as at 30th June 2012.

The Group's investment properties and hotel properties at 30th June, 2012 were fair valued by AA Property Services Limited, an independent professional surveyor and property valuer not connected with the Group. AA Property Services Limited is a member of the Hong Kong Institute of Surveyors and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived by reference to comparable sales transactions as available in the relevant market. At 30th June, 2012, increase in fair value of investment properties amounted to approximately HK\$204 million.

Additional units of properties transferred from properties held for sale to investment properties of HK\$81 million was noted. The increase was offset by disposal of investment properties of HK\$157 million during the current period.

10. Trade and other receivables

The credit terms in connection with sales of properties granted to the customers are set out in the sale and purchase agreements and vary from agreements. There is no concentration of credit risk with respect to trade receivables arise from sales of properties as the Group has numerous customers. In respect of sales of goods granted to trade customers, the Group allows an average credit periods ranging from 30 days to 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the end of the reporting period:

	30th June, 2012 HK\$'000	31st December, 2011 HK\$'000
0 to 30 days	1,229,116	337,947
31 to 90 days	10,240	13,546
More than 90 days	172,922	141,471
Total trade receivables	1,412,278	492,964
Other receivables	1,471,580	1,104,017
	2,883,858	1,596,981

11. Amount(s) due from (to) fellow subsidiaries/the ultimate holding company/an intermediate holding company

	30th June, 2012 HK\$'000	31st December, 2011 HK\$'000
(a) Amounts due from (to) fellow subsidiaries		
Amount due from fellow subsidiaries:-		
– Interest-free	33,989	34,566
Amount due to fellow subsidiaries:-		
– Interest-free	2,118,705	2,535,024

The amounts are unsecured and repayable on demand.

(b) Amount due to an intermediate holding company		
– Interest-free*	394,290	3,208,904
– Benchmark rate in the PRC plus 0.5%	593,464	593,464
– Benchmark rate in the PRC plus 1%	71,028	71,028
	1,058,782	3,873,396

* The amount included loan nature of HK\$349,895,000 (31st December, 2011: HK\$3,161,486,000).

The amounts are unsecured and repayable within one year except for HK\$44,394,000 (31st December, 2011: HK\$47,418,000) are repayable on demand.

11. Amount(s) due from (to) fellow subsidiaries/the ultimate holding company/an intermediate holding company (Continued)

	30th June, 2012 HK\$'000	31st December, 2011 HK\$'000
(c) Amount due to the ultimate holding company		
– Interest-free	29,962	30,478
– Benchmark rate in the PRC plus 1%	–	403,586
– 96.5% of benchmark rate in the PRC	370,370	–
– 92% of benchmark rate in the PRC	26,904	–
	427,236	434,064

The amounts are unsecured and repayable within one year except for HK\$29,962,000 (31st December, 2011: HK\$30,478,000) are repayable on demand.

12. Trade and other payables

The following is an aged analysis of trade payables at the end of the reporting period:

	30th June, 2012 HK\$'000	31st December, 2011 HK\$'000
0 to 30 days	2,979,895	3,134,306
31 to 90 days	28,983	79,294
More than 90 days	553,907	371,651
Total trade payables	3,562,785	3,585,251
Other payables	2,478,976	2,583,441
	6,041,761	6,168,692

13. Bank and other borrowings

During the period, the Group obtained new bank and other borrowings in the amount of HK\$13,180 million, which bear interest at market rates. The Group also repaid approximately HK\$7,707 million during the period.

14. Share capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.50 each		
Authorised:		
At 1st January, 2012 and 30th June, 2012	8,000,000,000	4,000,000
Issued and fully paid:		
At 1st January, 2012 and 30th June, 2012	3,608,437,046	1,804,219

15. Disposal of an associate

On 3rd June, 2011, the Group disposed 25% equity interest in 上海盛奕資產經營管理有限公司 with carrying amount of HK\$55 million at a consideration of HK\$150 million resulting in a gain of HK\$95 million.

16. Contingent liabilities

The Group arranged mortgage loan facilities with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayment. The maximum guarantees given to banks amount to HK\$12,169,209,000 as at 30th June, 2012 (31st December, 2011: HK\$10,378,907,000). Such guarantees will terminate upon the earlier of (i) issue of the real estate ownership certificate; and (ii) the satisfaction of the mortgage loans by the buyers of the properties. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the Directors. The Directors also consider that the fair 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.

17. Capital commitments

	30th June, 2012 HK\$'000	31st December, 2011 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– property development expenditures	16,902,138	10,869,472
– acquisition of land use rights	219,513	991,132
	17,121,651	11,860,604

The Group did not have any capital expenditure authorised but not contracted for as at 30th June, 2012 and 31st December, 2011.

18. Related party transactions

During the current period, the Group entered into the following transactions with related companies:

	Six months ended	
	30th June, 2012 HK\$'000	30th June, 2011 HK\$'000
Property rental income (<i>note a</i>)	5,624	5,232
Imputed interest expenses (<i>note b</i>)	6,289	5,721
Theatre operating expenses (<i>note c</i>)	7,901	5,375
Construction fee paid (<i>note d</i>)	2,133,242	1,309,667
Interest expenses (<i>note e</i>)	91,403	81,415
Guarantee charges (<i>note f</i>)	–	4,762

Notes:

- (a) The property rental income received from subsidiaries of the ultimate holding company, which were charged in accordance with the relevant tenancy agreement.
- (b) The imputed interest expenses derived from the loans advanced from a subsidiary of the ultimate holding company and a substantial shareholder of subsidiary of the Company, which carried at the effective interest rate of 6%.
- (c) The theatre operating expenses were paid to a jointly controlled entity and a fellow subsidiary for the operation and management of a theatre.
- (d) The construction fee paid to a subsidiary of the ultimate holding company were charged at market rate.
- (e) The interest expenses derived from the loans advanced from an intermediate holding company, the ultimate holding company and a fellow subsidiary (Poly Finance Company Limited), which carried interest at a fixed rate of 5.6%, benchmark rate in the PRC plus 0.5% to 1% and 90% of benchmark rate in the PRC to 105% of benchmark rate in the PRC.
- (f) The guarantee charges paid to the ultimate holding company for acting as a guarantor of bank loans borrowed by subsidiaries of the Group was charged at 1% on the maximum guarantee amount.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2012 (corresponding period in 2011: HK\$nil).

SHARE OPTION SCHEME

The Company had adopted a share option scheme (the “Former Scheme”) pursuant to an ordinary resolution passed on 16th June, 1993. At the annual general meeting of the Company held on 28th May, 2003, ordinary resolutions were passed by the shareholders to adopt a new share option scheme (the “New Scheme”) and terminate the Former Scheme. Under the two Schemes, the Directors may, at their discretion, invite all eligible employees (i.e. employee including directors of the Company or any subsidiary as defined in the two Schemes) to subscribe for shares of HK\$0.50 each (the “Share(s)”) in the Company (“Poly Options”) subject to the terms and conditions stipulated therein.

The Company considered that it is essential to its continued success that it is able to attract and motivate eligible employees of the right calibre and with the necessary experience to work for the Company. The adoption of the two Schemes will enable the Group to provide incentive to the eligible employees of the Group by offering them an opportunity to participate in the growth of the Group.

At 30th June, 2012, all options granted under the Former Scheme were either exercised or lapsed.

The following table discloses details of the Company’s options under the New Scheme held by employees (including directors) and movement in such holdings during the period:

	Option type	Outstanding at 1.1.2012	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30.6.2012
Category 1: Directors							
Chen Hong Sheng	2005	8,000,000	–	–	–	–	8,000,000
	2008	3,500,000	–	–	–	–	3,500,000
Wang Xu	2008	3,000,000	–	–	–	–	3,000,000
Xue Ming	2008	2,650,000	–	–	–	–	2,650,000
Ye Li Wen	2008	1,600,000	–	–	–	–	1,600,000
Yao Kang, J.P.	2008	500,000	–	–	–	–	500,000
Choy Shu Kwan	2005	300,000	–	–	–	–	300,000
	2008	300,000	–	–	–	–	300,000
		19,850,000	–	–	–	–	19,850,000
Category 2: Employees							
	2005	8,900,000	–	–	–	–	8,900,000
	2008	24,350,000	–	–	–	–	24,350,000
		33,250,000	–	–	–	–	33,250,000
Total all categories		53,100,000	–	–	–	–	53,100,000

Details of specific categories of Poly Options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
2005	14.7.2005	14.7.2005 – 13.7.2015	14.7.2005 – 13.7.2015	1.270
2008	29.4.2008	29.4.2008 – 28.4.2013	29.4.2008 – 28.4.2013	4.790

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2012, according to the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, the interests of the Directors in the Shares and underlying Shares of the Company were as follows:

Long position

Ordinary shares of HK\$0.5 each of the Company

Mr. Xue Ming is holding 1,000,000 shares (0.03%) in the issued share capital of the Company.

Ms. Leung Sau Fan, Sylvia is holding 33,000 shares (0%) in the issued share capital of the Company.

Share options of the Company

Name of director	Capacity	Number of options held	Number of underlying Shares
Chen Hong Sheng	Beneficial owner	11,500,000	11,500,000
Wang Xu	Beneficial owner	3,000,000	3,000,000
Xue Ming	Beneficial owner	2,650,000	2,650,000
Ye Li Wen	Beneficial owner	1,600,000	1,600,000
Yao Kang, J.P.	Beneficial owner	500,000	500,000
Choy Shu Kwan	Beneficial owner	600,000	600,000
		19,850,000	19,850,000

Save as disclosed above, at 30th June, 2012, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests and short positions in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded in the register maintained under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2012, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of shareholder	Number of Shares			Person having a security interest in Shares	Total number of Shares	Approximate percentage of the issued share capital of the Company
	Beneficial owner	Investment manager	Held by controlled corporation(s)			
Long position						
Congratulations Company Ltd.	1,037,975,080	-	-	-	1,037,975,080	28.77%
Source Holdings Limited	228,398,760	-	100,086,800	-	328,485,560	9.10%
					(Note 1)	
Ting Shing Holdings Limited	-	-	1,366,460,640	-	1,366,460,640	37.87%
			(Note 2)			
Poly (Hong Kong) Holdings Limited	112,410,476	-	1,366,460,640	-	1,478,871,116	40.98%
			(Note 3)			
Poly Southern Group Limited	253,788,246	-	-	-	253,788,246	7.03%
China Poly Group Corporation	-	-	1,732,659,362	-	1,732,659,362	48.02%
			(Note 4)			
Deutsche Bank Aktiengesellschaft	65,721,562	10,185,000	-	217,428,595	293,335,157	8.12%
Short position						
Deutsche Bank Aktiengesellschaft	62,771,026	-	-	213,153,595	275,924,621	7.64%

Notes:

- Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 Shares of the Company as a result of its direct holding of 228,398,760 Shares and indirect holding of 100,086,800 Shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited of 44,658,800 Shares and 55,428,000 Shares respectively.
- Ting Shing Holdings Limited is deemed by the SFO to be interested in 1,366,460,640 Shares as a result of its indirect holding of 1,366,460,640 Shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd. of 328,485,560 Shares and 1,037,975,080 Shares, respectively.
- Poly (Hong Kong) Holdings Limited is deemed by the SFO to be interested in 1,478,871,116 Shares as a result of its direct holding of 112,410,476 Shares and indirect holding of 1,366,460,640 Shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
- China Poly Group Corporation owns 100% of Poly (Hong Kong) Holdings Limited and Poly Southern Group Limited and is accordingly deemed by the SFO to be interested in the Shares directly and indirectly owned by Poly (Hong Kong) Holdings Limited and Poly Southern Group Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months period ended 30th June, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

The Stock Exchange made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Listing Rules and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1st April, 2012.

The Company has fully complied with all code provisions of the Old Code during the period from 1st January, 2012 to 31st March, 2012. It has also fully complied with the CG Code during the period from 1st April, 2012 to 30th June, 2012, other than code provisions A.2.1, A.5.1 to A.5.4 and E.1.2 of the CG Code. The reasons for deviation are explained below:

Code Provision A.2.1 of the CG Code – Role of Chairman and Chief Executive Officer

The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the roles of Chairman and Chief Executive Officer of the Company have been performed by Mr. Xue Ming since 29th April, 2010. The Board believes that the roles of Chairman and Chief Executive Officer performed by Mr. Xue Ming provide the Group with strong and consistent leadership and are beneficial to the Group especially in planning and execution of business strategies. The Board also believes that the present arrangement is beneficial to the Company and the shareholders as a whole.

Code Provisions A.5.1 to A.5.4 of the CG Code – Nomination Committee

The Company has considered the merits of establishing a nomination committee but is of the view that it is in the best interests of the Company that the Board collectively reviews, deliberates on and approves the structure, size and composition of the Board and the appointment of any new Director. The Board is tasked with ensuring that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Group and that appropriate individuals with the relevant expertise and leadership qualities are appointed to the Board to complement the capabilities of the existing Directors.

Code Provision E.1.2 of the CG Code – Attendance of Chairman of the Board at the Annual General Meetings

The chairman should attend the annual general meeting. Due to illness, Mr. Xue Ming, the Chairman, was not able to attend the annual general meeting of the Company held on 30th May, 2012.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 the Model Code of the Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the Model Code for the six months ended 30th June, 2012.

AUDIT COMMITTEE

The members of the Audit Committee have reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial statements.

