Tian Shan Development (Holding) Limited
天 山 發 展 (控 股) 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2118

Annual Report 2012

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. CHEUNG Siu Yiu, *FCPA, FCCA*

AUTHORISED REPRESENTATIVES

Mr. WU Zhen Shan
Mr. CHEUNG Siu Yiu

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY WEBSITE

www.tian-shan.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3006, Level 30, One Exchange Square
8 Connaught Place, Central
Hong Kong

REGISTERED OFFICE IN CAYMAN ISLANDS

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

AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTER AND TRANSFER OFFICE

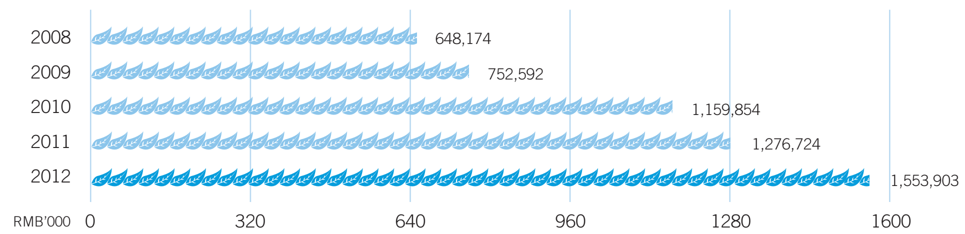
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,553,903**	1,276,724	1,159,854	752,592	648,174
Gross profit	**392,640**	249,496	379,071	250,201	265,567
Profit for the year	**208,033**	218,036	199,491	130,038	111,349
Basic earnings per share (RMB cents)	**20.80**	21.80	23.95	18.91	16.19
Delivered gross floor area	**390,761sq.m.**	278,492 sq.m.	442,482 sq.m.	254,430 sq.m.	263,528 sq.m.

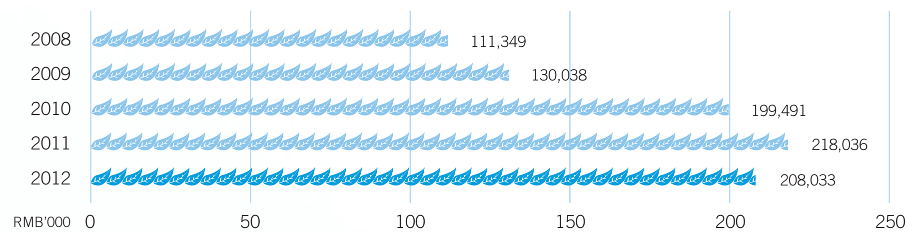
Turnover

Year ended 31 December



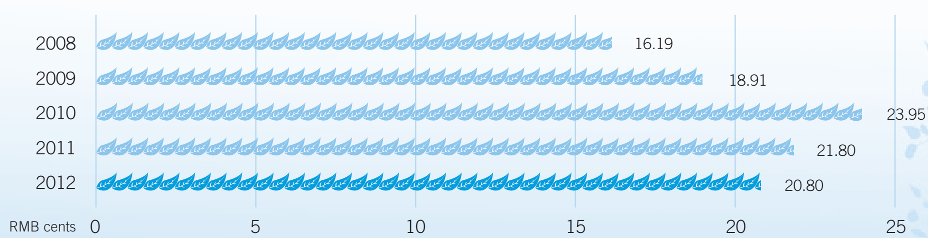
Profit for the year

Year ended 31 December



Basic earnings per share

Year ended 31 December



Property Portfolio

Property Portfolio


Yuanshi Waterside View

Tianshan Auspicious Lake



Tianjin Tian Shan Wonderful Waterside View (phase II)

Tianjin Tian Shan Wonderful Waterside View (phase II)



Tianshan Auspicious Lake

Tianjin Waterpark


Chairman's Statement

The past year of 2012 was a year in which the international and domestic environment was complex and volatile. The European debt crisis continued to spread and the property control policies were increasingly tightened. Facing the complicated global and domestic economy situation, Tian Shan Group sized up the situation, made rational decisions, and was able to accomplish all the annual targets set by the Company consistently based on the overall economic and social development.

Tian Shan Group cannot make a single step further without the full support from our shareholders and the hard work and selfless dedication of our staff. We always value the interests of our shareholders and employees highly, which is not only the specific initiatives to materialize the spirit of the 18th Party's Congress, but also the internal requirements to build social corporate image and to increase its inherent value.

Looking back to 2012, we made remarkable achievements under the strong support of our shareholders and with the wise decisions made by our directors and the hard work and selfless dedication of our staff:

Monthly sales of *Tianjin Tian Shan Wonderful Waterside View* ranked the first in Jinnan District, Tianjin in June and December 2012, and domestic retail giants were successfully introduced; *Shandong Tian Shan Wonderful Waterside View* was successfully accepted after examination, and was recognized as one of the winners in Wendeng Property Golden List 2012 (2012文登地產金榜); *Yuanshi Tian Shan Wonderful Waterside View* achieved good results of overselling for six consecutive months; *Tianshan Auspicious Lake* was commenced for pre-sales this year with outstanding results.

2013 will be a year of great development and reform for the Group. Each business unit makes decisions and operates independently, with clear responsibilities and simple stages, thus maximizing profits and scale. In product development, we will make innovations in the development of green energy and more user-friendly products; as for business strategy, we will adhere to rapid development, rapid sales and fast turnaround; regarding brand building, we will adhere to the coordinated development in five aspects of product, quality, environment, service and integrity.

2013 is the first year of the 18th Party's Congress. We believe that, under the strong support of all shareholders and with the hard work of our directors and staff, we will certainly accomplish all the targets set for 2013, creating a more brilliant year.

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

Tian Shan Development (Holding) Limited
WU Zhen Shan
Chairman

Management Discussion & Analysis

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Property development and investment

Tian Shan Development (Holding) Limited (the "Company", together with its subsidiaries, the "Group") is one of the leading property developers currently focusing on developing quality residential properties and industrial properties in Bohai Economic Rim. As at 31 December 2012, the Group had 13 property projects under development primarily in Shijiazhuang, Tianjin, Shangdong and Chengde with the total planned gross floor area of approximately 3.3 million square meters ("sq.m.").

The Group's brand "Tian Shan" is well recognised by its customers. The Group's business objective is to provide a comfortable living environment to its customers. Following the global economic recovery and the strong economic growth in the Bohai Economic Rim, during the year under review, the Group recorded a satisfactory turnover and delivered gross floor area of RMB1,553.9 million and 390,761 sq.m. respectively.

The total contracted sales amount of RMB1,419.8 million or gross floor area sold of 302,120 sq.m. also symbolized a satisfactory result for the year under review.

During the year, the Group commenced a new residential property project (the "*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 pre-sale progress of first batch *Tianshan Auspicious Lake* is very satisfactory and recorded total contracted sales over RMB360.0 million or gross floor area of 41,154 sq.m. in the second half of 2012.

The Group had in the year under review further held certain commercial and apartment properties in *Tian Shan Science and Technology Industrial Park, Sanhe Tian Shan International Enterprise Base and Chengde Tian Shan Wonderful Waters View* as investment properties for rental income to promote a more balanced cash flow from rental income in the long run.

In 2011, the Group had entered into a joint venture property 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, PRC. The CBD Project also involves the construction of approximately 630,000 sq.m., of which 500,000 sq.m. for re-settlement property and 130,000 sq.m. for community commercial property. As of 31 December 2012, the Group had invested RMB345.0 million to the CBD Project and recorded in the balance sheet as other receivables. The demolition and the construction of re-settlement property was originally planned to be completed by the end of 2013, as the Village Committee of Liu Village is still engaging in negotiation with some of the affected villagers regarding the transitional compensation for demolition which affect the whole demolition process, as such, the CBD Project will be delayed until further notice. Additional investment of RMB52.4 million may be incurred for further transitional compensation to the affected villagers. The Group expects no recoverability problem of such additional investment as the relevant sum will be recovered after the bidding of the relevant land in due course. In addition, Durban's injection of its committed capital to the CBD Project was delayed due to foreign currency control of the PRC. The Group is negotiating with Durban and the Village Committee of Liu Village an alternative arrangements to resolve Durban's commitment under the tri-partite development agreement.

Management Discussion and Analysis

As mentioned in prior year's annual report, with respect to the *Tianjin Tian Shan Wonderful Waterside View*, the Group is building and plans to run a waterpark (the "Tianjin Waterpark") with a site area of 86,510 sq.m. as a new landmark of Xiaozhan Town, Jinnan District, Tianjin, to attract more purchasers to the *Tianjin Tian Shan Wonderful Waterside View*. In late 2012, the completion schedule was adjusted to match the construction and sale progress of *Tianjin Tian Shan Wonderful Waterside View* in order to ensure adequate users are present before the opening of the Tianjin Waterpark. The Tianjin Waterpark is now in its final installation stage and is expected to be completed and ready for trail run in the first half of 2013.

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

FINANCIAL REVIEW

The Group's turnover increased by 21.7% to RMB1,553.9 million from RMB1,276.7 million as compared with the prior year. This was primarily due to the increased number of property projects completed and gross floor area delivered to the customers. During the year under review, the Group's turnover were principally from the sales and delivery of residential and industrial property projects, namely *Tianjin Tian Shan Wonderful Waterside View (Phases I and II), Chengde Tian Shan Wonderful Waters View, Tian Shan Science and Technology Industrial Park* and *Yuanshi Tian Shan Waterside View*.

The cost of sales gently increased by 13.1% to RMB1,161.3 million from RMB1,027.2 million as compared with the prior year. The increase was mainly due to the increase in construction costs and was in line with the increase in the turnover during the year.

As a result of the foregoing, the amount of the gross profit increased significantly by 57.4% to RMB392.6 million from RMB249.5 million, and the gross profit margin for the year under review has increased to approximately 25.3% as compared with that of 19.5% for the preceding year. The increase in gross profit margin was mainly due to, in prior year, the delivered property projects were *Contemporary Noble Territory and Tianjin Tian Shan Wonderful Waterside View (Phases I and II)* which were sold during 2010 (delivered in 2011) at a relatively lower price than those sold in 2011 or 2012.

The Group's other revenue increased to RMB82.8 million from RMB11.3 million as compared with the prior year. The increase was mainly due to compensation amounted to RMB58.7 million received from local government for compensation of imposed plot ratio for a completed residential project of the Group, *Tian Shan Guanlan Haoting*, in prior years due to the change of urban development plan, an extraordinary interest income of RMB3.7 million earned from incidental recovery of bad and doubtful debt and more rental income earned from investment properties during the year under review as more investment properties were held by the Group.

Management Discussion and Analysis

During the prior year, the Group had entered into a land resale agreement with Shijiazhuang Land Bureau and Shijiazhuang Land Bureau agreed to purchase back from the Group the land use rights over a land parcel in Shijiazhuang at a total consideration of RMB236.6 million. Since the land parcel's carrying value was RMB30.9 million and therefore, the transfer resulted in a gain to the Group of approximately RMB205.7 million as reported in the consolidated income statement as other net income in prior year. No such transfer of land was occurred in the current year under review.

The Group's selling and marketing expenses increased by approximately 24.7% to RMB88.9 million from RMB71.3 million. The increase was primarily due to the increase in sales commission and advertising and promotion expenses. The increase in sales commission was in line with the increase in recognised sales revenue during the year.

The Group's administrative expenses increased by approximately 4.6% to RMB130.6 million from RMB124.8 million. The increase was primarily due to increase in staff costs by RMB12.5 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 year.

The Group's income tax expense increased by RMB9.0 million to approximately RMB122.3 million from RMB113.3 million. The increase was primarily due to the increase in appreciation value of property projects sales and therefore increasing the burden on land appreciation tax of these property projects.

As a result of the above, the Group recorded a slight decrease in net profit to approximately RMB208.0 million as compared with preceding year of RMB218.0 million.

Current Assets and Liabilities

As at 31 December 2012, the Group had total current assets of approximately RMB5,165.0 million (2011: RMB4,570.7 million), comprising mainly inventories, trade and other receivables, and restricted cash and cash and cash equivalents.

As at 31 December 2012, the Group had total current liabilities of approximately RMB3,663.7 million (2011: RMB3,148.0 million), comprising mainly bank and other borrowings, trade and other payables and taxation.

As at 31 December 2012, the current ratio (calculated as the total current assets divided by the total current liabilities) was 1.4 (2011: 1.5).

Management Discussion and Analysis

Financial Resources, Liquidity and Gearing Ratio

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

As at 31 December 2012, the gearing ratio (calculated as net debt divided by total equity) is as follows:

	2012 RMB'000	2011 RMB'000
Total bank and other borrowings	**1,715,400**	863,750
Less: Cash and cash equivalents	**(618,883)**	(180,469)
Net debt	**1,096,517**	683,281
Total equity	**1,506,305**	1,334,465
Gearing ratio	**0.73**	0.51

The gearing ratio increased from 0.51 to 0.73 was primarily due to the net effect of the increase in bank and other loans of approximately RMB851.7 million, the increase in total equity by the profit earned during the year of RMB208.0 million and the increase in cash and cash equivalents by RMB438.4 million.

Charge on Assets

At 31 December 2012, assets of the Group secured against bank and other loans are analysed as follows:

	2012 RMB'000	2011 RMB'000
Properties held for future development for sale	**171,209**	31,890
Properties under development for sale	**1,492,533**	592,564
Completed properties held for sale	**555,462**	204,830
Property, plant and equipment	**245,804**	80,979
Investment properties	**94,032**	160,024
Restricted cash	**22,400**	–
	2,581,440	1,070,287

In addition, as of 31 December 2012, the Group had restricted cash of RMB47.5 million (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.

Management Discussion and Analysis

Employees' Remuneration and Benefits

As at 31 December 2012, the Group employed a total of 1,129 employees (31 December 2011: 1,374 employees). The compensation package of the employees includes basic salary and bonus which depends on the employee's actual achievement against target. In general, the Group offered competitive salary package, social insurance, pension scheme to its employees based on the current market salary levels. A share option scheme has also been adopted for employees of the Group.

Foreign Exchange and Currency Risk

The Group's businesses are principally conducted in RMB, therefore, the Group does not expose to significant foreign currency exchange risks as of 31 December 2012 and the Group does not employ any financial instruments for hedging purposes.

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

Capital Expenditure

During the year, the Group incurred capital expenditure in the amount of approximately RMB1,493.7 million (2011: RMB2,024.8 million) comprising primarily land and development costs of property projects.

Contingent Liabilities

Except for the guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties of RMB2,314.3 million (2011: RMB1,901.3 million) and the guarantee provided to a bank in respect of banking facility granted to a related party of RMB68.4 million (2011: Nil), the Group had no material contingent liability as at 31 December 2012.

Final Dividend

The Directors have recommended the payment of a final dividend of HK1.5 cents (2011: HK3.5 cents) per ordinary share for the year ended 31 December 2012.

Substantial Acquisition and Disposal

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

Directors and Senior Management Biographies

EXECUTIVE DIRECTORS

Mr. WU Zhen Shan (吳振山), aged 56, is one of the founders of the Group. Mr. WU is the Chairman of the Group and was appointed as an executive Director on 10 June 2005 responsible for the development strategies, investment plans and human resources of our Company. Mr. WU is also a member of the remuneration committee and the chairman of the nomination committee of our Board. In October 2000, Mr. WU, based on his experience in the industry, completed a two-year part-time master course and obtained the Certificate in Economic Management issued by Hebei University of Agriculture. Mr. WU has approximately 32 years of experience in the construction industry and approximately 12 years of experience in the property development industry. In 1980, Mr. WU together with Mr. ZHANG Zhen Hai established and worked in the Liucun Shengli Construction Team, the principal business of which was construction of civil engineering projects for domestic and industrial uses, until 1993. In 1993, Mr. WU together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company, which engaged in undertaking construction works until 1995. In 1995, Mr. WU together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company, which engaged in the construction and installation services of civil engineering projects for domestic and industrial uses until 2000, when Mr. WU together with other Founders established and worked in Tianshan Construction. In March 1987, Mr. WU was conferred the qualification of technician in construction by Zhengding Committee of Science and Technology. Mr. WU was accredited as a senior engineer of construction in October 1998 and a senior economist in November 2002 by The Title Reform Leading Group Office of Hebei Province. The accreditation of senior engineer of construction indicates the person has gained a certain level of experience by participation in construction projects of recognised scales in accordance with the State's requirements. The accreditation of senior economist indicates the person has participated in the operation and management of enterprises of certain scales in accordance with the State's requirements. Mr. WU serves as the standing committee member of China Real Estate Association, the vice chairman of Hebei Construction Association, a vice chairman of Hebei Province Entrepreneur Association, the vice chairman of Shijiazhuang Industry and Commerce Joint Association, a vice president of the Association of Real Estate in Shijiazhuang and a vice president of Hebei House and Real Estate Association. In February 2003, Mr. WU was elected as a representative of the Tenth National People's Congress and in January 2008, Mr. WU was elected as a representative of the Eleventh Hebei People's Congress. In April 2006, Mr. WU received the award of "Hebei Outstanding Entrepreneur" from the Hebei Province Entrepreneur Association. In September 2009, Mr. WU was awarded the "10 Most Outstanding Entrepreneurs in China in 2009" by China Enterprise Press. In March 2013, Mr. WU was elected as a representative of the Twelfth National People's Congress. Mr. WU Zhen Shan is the elder brother of Mr. WU Zhen Ling and Mr. WU Zhen He, and the brother-in-law of Mr. ZHANG Zhen Hai.

Directors and Senior Management Biographies

Mr. WU Zhen Ling (吳振嶺), aged 48, is one of our Founders. Mr. WU is the Vice Chairman of our Group and was appointed as an executive Director on 10 June 2005 responsible for the operation, production, planning, design and management of our property projects. Mr. WU is also a member of the remuneration committee, and the nomination committee of our Board. In October 2000, Mr. WU, based on his experience in the industry, completed a two-year part-time master course and obtained the Certificate in Economic Management issued by Hebei University of Agriculture. Mr. WU has approximately 27 years of experience in the construction industry and approximately 12 years of experience in the property development industry. In 1985, Mr. WU joined and worked in the Liucun Shengli Construction Team until 1993. In 1993, Mr. WU together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company. In 1995, Mr. WU together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company until 2000, when Mr. WU together with other Founders established and worked in Tianshan Construction. Since 1998, Mr. WU has been focusing on the property development business and working with Tian Shan Real Estate. Mr. WU was accredited as a senior engineer in October 1998 by The Title Reform Leading Group Office of Hebei Province. Mr. WU is the vice chairman of Hebei Construction Association Project Construction Quality Branch Association. Mr. WU Zhen Ling is the younger brother of Mr. WU Zhen Shan and elder brother of Mr. WU Zhen He, and the brother-in-law of Mr. ZHANG Zhen Hai.

Mr. ZHANG Zhen Hai (張振海), aged 58, is one of our Founders and was appointed as an executive Director on 10 June 2005, responsible for overseeing the procurement of our construction materials. Mr. ZHANG is a tertiary graduate in construction from Shijiazhuang Public Officers' Institute of Technology in December 2000 and was accredited as senior engineer in December 2003 by The Title Reform Leading Group Office of Hebei Province. Mr. ZHANG has approximately 32 years of experience in the construction industry and approximately 12 years of experience in the property development industry. In 1980, Mr. ZHANG together with Mr. WU Zhan Shan established and worked in Liucun Shengli Construction Team until 1993. In 1993, Mr. ZHANG together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company. In 1995, Mr. ZHANG together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company until 2000, when Mr. ZHANG together with other Founders established and worked in Tianshan Construction. Since 1998, Mr. ZHANG has been focusing on the property development business and working with Tian Shan Real Estate. Mr. ZHANG Zhen Hai is the brother-in-law of Mr. WU Zhen Shan, Mr. WU Zhen Ling and Mr. WU Zhen He.

Mr. WU Zhen He (吳振河), aged 42, is one of our Founders and was appointed as an executive Director on 10 June 2005, responsible for the operation and production of our property projects. Mr. WU has approximately 19 years of experience in the construction industry and 12 years of experience in the property development industry. In 1993 Mr. WU together with the other Founders established and worked in Zhengding Dishi Construction and Engineering Company. In 1995, Mr. WU together with other Founders established and worked in Shijiazhuang Hi-tech Industry Development Zone Diyi Construction and Engineering Company until 2000, when Mr. WU together with other Founders established and worked in Tianshan Construction. In October 2000, Mr. WU, based on his experience in the industry, completed a two-year part-time master course and obtained the Certificate in Economic Management issued by Hebei University of Agriculture. Mr. WU was accredited as a senior engineer in 2002 by The Title Reform Leading Group Office of Hebei Province. Mr. WU Zhen He is the younger brother of Mr. WU Zhen Shan and Mr. WU Zhen Ling, and the brother-in-law of Mr. ZHANG Zhen Hai.

Directors and Senior Management Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TIAN Chong Hou（田崇厚）, aged 67, was appointed as an independent non-executive Director on 16 June 2010. Mr. TIAN is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our Board. Mr. TIAN has obtained a graduation certificate from the Department of Electrical and Power Engineering of Tianjin University for completing a five-year course in internal combustion engines which commenced in 1964. In 1996, Mr. TIAN worked as a professor of the enterprise management department of the Hebei University of Economics and Business. In 2000, Mr. TIAN was appointed as a tutor for postgraduate studies students in agricultural economics management by the Hebei University of Agriculture. Mr. TIAN has also been appointed as a counsellor of the Hebei provincial government from March 2007 to March 2012.

Mr. WANG Ping（王平）, aged 55, was appointed as an independent non-executive Director on 16 June 2010. Mr. WANG is also a member of the audit committee, the remuneration committee and the nomination committee of our Board. Mr. WANG has approximately 30 years of experience in the real estate industry. Since 1991, Mr. WANG has been working for the China Real Estate Association, and has been its vice chief secretary since 2006, and the vice president and chief secretary of its Professional Committee of City Development since 2004. Mr. WANG completed tertiary education majoring in industrial enterprise economics management in Beijing Open University in 1986. Mr. WANG obtained a master's degree in senior management personnel business administration from Tsinghua University in July 2008.

Mr. CHEUNG Ying Kwan（張應坤）, aged 53, was appointed as an independent non-executive Director on 16 June 2010. Mr. CHEUNG is also the chairman of the audit committee of the Board, and a member of the remuneration committee and the nomination committee of the Board. Mr. CHEUNG is a finance manager of Carling Technology Limited and has over 24 years of experience in financial management for a number of corporations and listed companies. Mr. CHEUNG has been an independent non-executive director of Auto Italia Holdings Limited, a company listed on the Stock Exchange (stock code 00720), since November 2005. Mr. CHEUNG was admitted as a fellow of the Association of Chartered Certified Accountants in November 2000 and a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in April 1995.

SENIOR MANAGEMENT

Mr. CHEUNG Siu Yiu（張少耀）, aged 38, is the Chief Financial Officer and Company Secretary of the Company. Mr. CHEUNG graduated from the Hong Kong Baptist University with a bachelor's degree in business administration (Hons) in December 1997. Mr. CHEUNG is a practising fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England & Wales, a fellow of the Association of Chartered Certified Accountants and a member of The Institute of Internal Auditors. Mr. CHEUNG has over 15 years of experience in financial management and reporting.

Directors and Senior Management Biographies

Ms. GAO Li Xiang（高立香）, aged 38, is currently a Vice President of Tian Shan Real Estate responsible for residential property sector. Ms. GAO graduated from a four-year course in economics from Hebei University in June 1996 and was accredited as senior economist in November 2006 by the Title Reform Leading Group Office of Hebei Province. Ms. GAO joined us in December 1998 as deputy general manager responsible for operations and has been a Vice President of Tian Shan Real Estate since 2003, responsible for its operation. Ms. GAO has approximately 13 years of experience in the property development industry from Tian Shan Real Estate.

Mr. CHEN Shi Bin（陳士彬）, aged 34, is currently an Executive President of Tian Shan Real Estate. Mr. CHEN graduated from a four-year course in technology and economics from Shijiazhuang University of Economics in July 2000. Mr. CHEN joined the Group in July 2000, and was the secretary of president's office in November 2000, and has served the posts of General Manager of the Group's companies, Assistant President, Vice President and Executive Vice President of the Group. Mr. CHEN has extensive experience in the construction and property development industry.

Mr. ZHANG Yong Jun（張永軍）, aged 34, is currently a Vice President of Tian Shan Real Estate responsible for commercial property sector. In June 2002, Mr. Zhang graduated from Hebei University specializing in the computer science management and information system and joined the Group in the same year. He has held several positions with the Group, including the Manager of Operation Department, General Manager of Real Estate Department, Regional President and Group Vice President. Mr. Zhang has 10 years of experience in property development.

Mr. GONG Xian Hui（宮現輝）, aged 33, is currently a Vice President of Tian Shan Real Estate responsible for capital management. Mr. GONG graduated from a four-year course in financial accounting from Heibei Normal University in June 2001. He joined the Group in April 2002 and has held several positions with the Group, including the Financial Manager, Chief Financial Officer and Vice President of Capital Operation. Mr. GONG has over 11 years of experience in financial management and capital operation within the Group.

Ms. SI Jing Xin（司景新）, aged 32, has been a Vice President of Tian Shan Real Estate and is responsible for the formulation of strategies for fund-raising and other merger and acquisition transactions since May 2005. Ms. SI graduated from a four-year course in international economics and trade from Jingdezhen Ceramic Institute in July 2003 and was accredited as assistant economist by the Title Reform Leading Group Office of Shijiazhuang Hitech Industry Development Zone in December 2004. Ms. SI joined Tian Shan Real Estate in 2003 working at the president's office with the responsibilities to assist the president in organising investors' relations activities and liaising with government departments and industry organisations for various business events and activities.

Mr. YANG Zhao（楊昭）, aged 31, is currently a Vice President of Tian Shan Real Estate responsible for industrial property sector. He graduated from the Department of English of Shaanxi Xi'an Eurasia University majoring in foreign-oriented senior secretary. He joined Tian Shan in 2004 and has been appointed as the Manager of Real Estate Development Department, Manager of Real Estate Operating Department and Vice President of Real Estate Operating Department. He has six years of experience in real estate project management and extensive property development experience.

Corporate Governance Report

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

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2012 (the "Review Period").

BOARD COMPOSITION

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

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

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

Biographical details of the directors are set out on pages 13 to 16 of this annual report.

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

Details of the emoluments of the directors are set out in note 10 to the consolidated financial statements.

Corporate Governance Report

PRINCIPAL FUNCTIONS

The Board has the ultimate decision on the Group's overall strategy, annual budget, annual and interim results, appointment or retirement of directors, significant contracts and transactions as well as other significant policy and financial matters. Chief executive officer is not appointed and the Board has delegated the daily operations and administration to the Company's management.

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

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

Board Meetings and General Meetings

The Company held 7 Board meetings and 3 general meetings during the Review Period and the following is the summary of the Directors attended these meetings.

	Number of meetings Attended/Eligible to attend	
	Board Meeting	**General Meeting**
Executive Directors:		
Mr. WU Zhen Shan *(Chairman)*	5/5	2/3
Mr. WU Zhen Ling	5/5	0/3
Mr. ZHANG Zhen Hai	4/5	1/3
Mr. WU Zhen He	0/5	0/3
Independent non-executive Directors:		
Mr. TIAN Chong Hou	7/7	1/3
Mr. WANG Ping	2/7	1/3
Mr. CHEUNG Ying Kwan	7/7	2/3

Corporate Governance Report

Appointment, Re-election and Removal of Directors

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

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

BOARD COMMITTEES

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

Audit committee

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

The Company held two audit committee meetings during the Review Period to review financial results and internal control system of the Group and all members have attended.

Corporate Governance Report

Remuneration committee

The Board has established the remuneration committee on 16 June 2010 with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the remuneration committee is to make recommendations to the Board on the Group's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, and to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives to make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The remuneration committee comprises two executive Directors, namely Mr. WU Zhen Shan and Mr. WU Zhen Ling, and three INEDs, namely Mr. TIAN Chong Hou, Mr. WANG Ping and Mr. CHEUNG Ying Kwan. Mr. TIAN Chong Hou is the chairman of the remuneration committee since 30 March 2012.

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

Nomination committee

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

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

External auditor

The Company has appointed KPMG as the independent external auditors. The remuneration paid or payable to the external auditors for statutory audit is HKD3,400,000. There were no non-audit services rendered by the external auditors during the Review Period.

Accountability and audit

The Directors acknowledge their responsibility for preparing the Group's consolidated financial statements for the year ended 31 December 2012 in accordance with the International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

The reporting responsibilities of the independent external auditors are set out on pages 33 and 34 of this annual report.

Corporate Governance Report

Internal control

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

Securities transactions by Directors

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

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

Continuous Professional Development of Directors

The Company has from time to time provided Directors with materials relating to the business and operations of the Group and their responsibilities under the Listing Rules, legal and other regulatory requirements. During the year, the Company has arranged a professional firm to conduct a training session for Directors relating to the roles, functions and duties of a listed company director under the Code A.6.5 of the Corporate Governance Code. Each of the Directors has confirmed that attended training courses relevant to their directorship during the year under review.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for liabilities in respect of legal actions against Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group under Code A.1.8 of the Corporate Governance Code.

Communication with shareholders

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

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

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Procedures by which Shareholders may convene an extraordinary general meeting

The Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the articles of association of the Company. However, shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out above.

Detailed procedures for shareholders to propose a person for election as a director are available on the Company's website.

Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the Company's principal place of business in Hong Kong at Room 3006, Level 30, One Exchange Square, 8 Connaught Place, Central, Hong Kong.

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal activities

The principal activity of the Company is investment holding. The Group is principally engaged in the development and sale of properties in the People's Republic of China. Details of the principal activities of its subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 102.

A special dividend of HK1.0 cent per ordinary share was paid on 15 October 2012. The Directors have recommended the payment of a final dividend of HK1.5 cents per ordinary share in respect of the year to shareholders on the register of members on 7 June 2013, subject to the approval of the shareholders at the forthcoming annual general meeting.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out on pages 105 and 106. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 104.

Share capital and share options

Details of movements in the share capital and share options of the Company during the year are set out in notes 20 and 22 to the financial statements, respectively.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the company

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

Report of the Directors

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 21(h) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2012, the Company's reserves (including the share premium account) available for distribution, calculated in accordance with the provisions of the Companies Law (2012 Revision) of the Cayman Islands, amounted to RMB206,443,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 4.3% of the total sales for the year and sales to the largest customer included therein amounted to 1.5% of the total sales.

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

During the year under review, the purchase from the Group's five largest suppliers accounted for 32.3% of the total purchases for the year and purchases from the largest supplier, being Hebei Tianshan Industrial Group Construction Engineering Company Limited (a company established in the PRC and is a connected person of the Company under the Listing Rules, "Tianshan Construction"), included therein amounted to 8.9% of the total purchases.

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

Directors

The Directors of the Company during the year were:

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

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

Report of the Directors

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

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

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

Directors' and senior management's biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 16 of the annual report.

Directors' service contracts

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

Directors' remuneration

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

Directors' interests in contracts

Other than those disclosed in note 29 to the financial statements, no contract of significance to which the Company, any of its subsidiaries or fellow subsidiary was a party, and in which a director of the Company had a material interest, subsisted of the end of the year or at any time during the year.

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

As at 31 December 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

Report of the Directors

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

1. Interests in the Company

(a) Shares

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

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

(b) Options

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

Notes:

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

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

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

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

Report of the Directors

2. Interest in associated corporations

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

Save as disclosed above, as at 31 December 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 31 December 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%

Save as disclosed above, as at 31 December 2012, no person, other than the directors of the Company, whose interests are set out in the Section "Interests and short positions of the Directors and the chief executive in shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

Report of the Directors

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.

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

Name or category of participant	At 1 January 2012	Grant during the year	Exercised during the year	Forfeited during the year	At 31 December 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								
In aggregate	4,945,000	–	–	(190,000)	4,755,000	16.06.2010	16.01.2011 to 15.06.2020	0.70
Total	5,900,000	–	–	(190,000)	5,710,000			

Report of the Directors

Notes:

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

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

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

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

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

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

Share option scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions in writing of the then sole shareholder of the Company on 16 June 2010 and has become effective upon the Company's Listing on 15 July 2010 (the "Listing Date"). During the year under review, no share options were granted or exercised and 190,000 share options were forfeited by the Company under the Share Option Scheme. There were no outstanding share options under the Share Option Scheme as at 31 December 2012.

Report of the Directors

CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTION

During the year, the Group had the following continuing connected transaction and connected transaction with its connected persons as defined in the Listing Rules and which are subject to disclosure requirements under Chapter 14A of the Listing Rules. These continuing connected transaction and connected transaction which also constitute related party transactions are set out in note 29 to the financial statements.

Continuing connected transactions with Hebei Tianshan Industrial Group Construction Engineering Company Limited ("Tianshan Construction")

On 19 December 2011, the Group entered into a framework services agreement with Tianshan Construction (a limited liability company established in the PRC) (the "Construction Services Agreement"), pursuant to which Tianshan Construction agreed to provide construction work and services for the Group's real estate development projects through a tender process in compliance with the applicable laws and regulations. The Construction Services Agreement is effective for two years commencing from 1 January 2012.

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

For the year ended 31 December 2012, the annual cap for the continuing connected transaction under the Construction Services Agreement is RMB658.2 million and the actual transacted amount was RMB133.4 million.

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

Report of the Directors

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

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

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

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

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the announcement of the Company dated 19 December 2011 made by the Company in respect of the disclosed continuing connected transaction.

Connected transaction with Tianshan Construction

On 29 December 2011, Tianshan Construction entered into a loan agreement with a bank in the PRC (the "Bank") whereby the Bank agreed, among others, to grant to Tianshan Construction a loan of RMB28,000,000 for a period from 29 December 2011 to 28 December 2012. As partial security for the loan, Tian Shan Real Estate Development Limited ("Tian Shan Real Estate"), a wholly owned subsidiary of the Company, had agreed to provide a security over a land parcel (the "Land") in favour of the Bank. In consideration of the provision of the security, Tianshan Construction has to pay Tian Shan Real Estate a sum of RMB570,000.

In addition, on 14 February 2012, Tianshan Construction entered into another loan agreement with the Bank whereby the Bank agreed, among others, to grant to Tianshan Construction a loan of RMB6,000,000 for one year. As partial security for the loan, Tian Shan Real Estate had agreed to provide a security over certain premises located at the Land in favour of the Bank. In consideration of the provision of the security, Tianshan Construction has to pay Tian Shan Real Estate a sum of RMB231,000.

The above two bank loans were fully repaid by Tianshan Construction to the Bank in December 2012.

Report of the Directors

During the year under review, on 10 August 2012, Tianshan Construction entered into a facility letter with another bank in the PRC whereby, among others, the bank agreed to grant to Tianshan Construction a revolving loan facility of RMB53,000,000 for a term of approximately three years. As security for the revolving loan facility, on 24 August 2012, the Company has provided a corporate guarantee and Tian Shan Real Estate had agreed to provide corporate guarantee and a security over certain investment properties in favour of the bank. In consideration of the provision of the corporate guarantees and security, Tianshan Construction has to pay the Group a sum of approximately RMB6.0 million.

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

Further details of the connected transactions are set out in the Company's announcements dated 29 December 2011, 14 February 2012, and 24 August 2012 and circular dated 4 October 2012.

Contingent liabilities

Details of the contingent liabilities of the Company and the Group are set out in note 28 to the financial statements.

Sufficiency of public float

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

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Wu Zhen Shan
Chairman

28 March 2013

Independent Auditor's Report

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

We have audited the consolidated financial statements of Tian Shan Development (Holding) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 35 to 102, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2013

Consolidated Income Statement

for the year ended 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Turnover	4	**1,553,903**	1,276,724
Cost of sales		**(1,161,263)**	(1,027,228)
Gross profit		**392,640**	249,496
Other revenue	5	**82,782**	11,312
Other net income	5	**–**	205,657
Selling and marketing expenses		**(88,899)**	(71,312)
Administrative expenses		**(130,580)**	(124,795)
Profit from operations		**255,943**	270,358
Finance income		**2,035**	1,381
Finance expenses		**(2,869)**	(608)
Net financing (expenses)/income	6(a)	**(834)**	773
Profit before change in fair value of investment properties and income tax		**255,109**	271,131
Increase in fair value of investment properties	14	**75,269**	60,159
Profit before taxation	6	**330,378**	331,290
Income tax	7	**(122,345)**	(113,254)
Profit for the year		**208,033**	218,036
Earnings per share (RMB cents)	9		
Basic		**20.80**	21.80
Diluted		**20.80**	21.78

The accompanying notes form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profits for the year are set out in note 21(a).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Profit for the year		**208,033**	218,036
Other comprehensive income for the year			
Exchange differences on translation of financial statements of foreign subsidiaries		**(223)**	(889)
Total comprehensive income for the year		**207,810**	217,147

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

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	13	**335,211**	165,227
Investment properties	14	**433,253**	276,991
Deferred tax assets	7(d)	**24,594**	16,213
		793,058	458,431
Current assets			
Inventories	16	**3,550,312**	3,386,255
Trade and other receivables	17	**931,613**	961,952
Prepaid tax	7(c)	**16,653**	8,300
Restricted cash	18	**47,492**	33,744
Cash and cash equivalents	19	**618,883**	180,469
		5,164,953	4,570,720
Current liabilities			
Bank loans – secured	23	**539,050**	225,200
Other loans – secured	24	**454,555**	137,075
Trade and other payables	25	**2,528,100**	2,683,088
Current taxation	7(c)	**141,947**	102,684
		3,663,652	3,148,047
Net current assets		**1,501,301**	1,422,673
Total assets less current liabilities		**2,294,359**	1,881,104

Consolidated Balance Sheet

at 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Bank loans – secured	23	**175,500**	365,800
Other loans – secured	24	**546,295**	135,675
Deferred tax liabilities	7(d)	**66,259**	45,164
		788,054	546,639
NET ASSETS		**1,506,305**	1,334,465
CAPITAL AND RESERVES			
Share capital	20	**86,731**	86,731
Reserves	21	**1,419,574**	1,247,734
TOTAL EQUITY		**1,506,305**	1,334,465

Approved and authorised for issue by the board of directors on 28 March 2013.

Wu Zhen Shan
Executive director

Wu Zhen Ling
Executive director

The accompanying notes form part of these financial statements.

Balance Sheet

at 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current asset			
Interest in subsidiaries	15	**304,434**	146,536
Current assets			
Other receivables	17	**1,602**	1,101
Cash and cash equivalents	19	**2,361**	707
		3,963	1,808
Current liability			
Other payables	25	**15,223**	4,835
NET CURRENT LIABILITIES		**(11,260)**	(3,027)
TOTAL ASSETS LESS CURRENT LIABILITIES		**293,174**	143,509
NET ASSETS		**293,174**	143,509
CAPITAL AND RESERVES			
Share capital	20	**86,731**	86,731
Reserves	21(g), 21(h)	**206,443**	56,778
TOTAL EQUITY		**293,174**	143,509

Approved and authorised for issue by the board of directors on 28 March 2013.

Wu Zhen Shan
Executive director

Wu Zhen Ling
Executive director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012 (Expressed in Renminbi)

	Note	Attributable to equity holders of the Group							
		Share capital RMB'000 (note 20)	Share premium RMB'000 (note 21(b))	Exchange reserve RMB'000 (note 21(c))	Other capital reserve RMB'000 (note 21(d))	PRC statutory reserve RMB'000 (note 21(e))	Share-based compensation reserve RMB'000 (note 21(f))	Retained profits RMB'000	Total RMB'000
At 1 January 2012		**86,731**	**259,358**	**48,259**	**110,070**	**147,001**	**2,087**	**680,959**	**1,334,465**
Changes in equity for 2012									
Profit for the year		–	–	–	–	–	–	**208,033**	**208,033**
Other comprehensive income		–	–	**(223)**	–	–	–	–	**(223)**
Total comprehensive income for the year		–	–	**(223)**	–	–	–	**208,033**	**207,810**
Transfer to statutory reserve		–	–	–	–	**27,883**	–	**(27,883)**	–
Equity settled share-based payment	6(b)	–	–	–	–	–	**629**	**33**	**662**
Dividends approved in respect of the previous year	21(a)(ii)	–	**(28,473)**	–	–	–	–	–	**(28,473)**
Special dividend declared in respect of the current year	21(a)(ii)	–	**(8,159)**	–	–	–	–	–	**(8,159)**
At 31 December 2012		**86,731**	**222,726**	**48,036**	**110,070**	**174,884**	**2,716**	**861,142**	**1,506,305**

	Note	Attributable to equity holders of the Group							
		Share capital RMB'000 (note 20)	Share premium RMB'000 (note 21(b))	Exchange reserve RMB'000 (note 21(c))	Other capital reserve RMB'000 (note 21(d))	PRC statutory reserve RMB'000 (note 21(e))	Share-based compensation reserve RMB'000 (note 21(f))	Retained profits RMB'000	Total RMB'000
At 1 January 2011		86,731	271,634	49,148	110,070	118,972	1,051	490,952	1,128,558
Changes in equity for 2011									
Profit for the year		–	–	–	–	–	–	218,036	218,036
Other comprehensive income		–	–	(889)	–	–	–	–	(889)
Total comprehensive income for the year		–	–	(889)	–	–	–	218,036	217,147
Transfer to statutory reserve		–	–	–	–	28,029	–	(28,029)	–
Equity settled share-based payment	6(b)	–	–	–	–	–	1,036	–	1,036
Dividends declared and paid	21(a)(ii)	–	(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

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2012 (Expressed in Renminbi)

	2012 RMB'000	2011 RMB'000
Operating activities		
Profit before taxation	**330,378**	331,290
Adjustments for:		
Depreciation and amortisation	**10,518**	7,839
Equity settled share-based payment expenses	**662**	988
Loss/(gain) on disposal of property, plant and equipment	**111**	(365)
Increase in fair value of investment properties	**(75,269)**	(60,159)
Exchange (gain)/loss	**(3)**	52
Interest income	**(2,032)**	(1,381)
Net interest expense	**2,869**	556
Changes in working capital:		
Increase in inventories	**(134,114)**	(828,724)
Decrease/(increase) in trade and other receivables	**30,339**	(612,314)
(Increase)/decrease in restricted cash	**(13,748)**	9,213
(Decrease)/increase in trade and other payables	**(154,988)**	1,013,978
Cash used in operations	**(5,277)**	(139,027)
Tax paid		
PRC tax paid	**(78,721)**	(105,550)
Net cash used in operating activities	**(83,998)**	(244,577)
Investing activities		
Payments for the purchase of property, plant and equipment	**(168,814)**	(67,950)
Proceeds from disposal of property, plant and equipment	**1,069**	563
Interest received	**2,032**	1,381
Net cash used in investing activities	**(165,713)**	(66,006)

Consolidated Cash Flow Statement

for the year ended 31 December 2012 (Expressed in Renminbi)

	2012 RMB'000	2011 RMB'000
Financing activities		
Proceeds from new bank loans	**310,700**	361,600
Proceeds from new other loans	**851,100**	272,750
Repayment of bank loans	**(187,150)**	(133,800)
Repayment of other loans	**(123,000)**	(302,080)
Interest paid	**(126,673)**	(70,473)
Dividend paid	**(36,632)**	(12,276)
Net cash generated from financing activities	**688,345**	115,721
Net increase/(decrease) in cash and cash equivalents	**438,634**	(194,862)
Cash and cash equivalents at 1 January	**180,469**	376,224
Effect of foreign exchange rate changes	**(220)**	(893)
Cash and cash equivalents at 31 December	**618,883**	180,469

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

Tian Shan Development (Holding) Limited ("the Company") was incorporated in the Cayman Islands on 10 June 2005 and registered as an exempted company with limited liability under the Companies Law (2012 Revision) of the Cayman Islands. Its principal place of business is at Room 3006, Level 30, One Exchange Square, 8 Connaught Place, Central, Hong Kong and its registered office is at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company and its subsidiaries (together "the Group") are principally engaged in property development in the People's Republic of China (the "PRC"). The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 July 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together with the Company hereinafter referred to as the "Group"). The consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand Yuan.

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

(c) Subsidiaries

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Investment properties

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

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

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

(e) Property, plant and equipment

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

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

– other items of plant and equipment.

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

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

–	Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful life, being 30 years after the date of completion
–	Leasehold improvements	3 – 5 years
–	Plant and machinery	8 years
–	Furniture, fixtures and equipment	5 – 8 years
–	Motor vehicles	8 years

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

(f) Leased assets

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

(i) Classification of assets leased to the Group

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

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

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

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(d)) or is held for development for sale (see note2(h)(i)).

(g) Impairment of assets

(i) Impairment of trade and other receivables

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

– significant financial difficulty of the debtor;

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

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

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

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

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

(ii) Impairment of other assets

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

– investments in subsidiaries;

– property, plant and equipment; and

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

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

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Inventories

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

(i) Properties held for future development and under development for sale

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

(ii) Completed properties held for sale

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

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

(i) Construction contracts

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Trade and other receivables

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

(n) Employee benefits

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

  – the same taxable entity; or

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition

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

(i) Sale of properties

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

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

(ii) Contract revenue

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

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

(iii) Rental income from operating leases

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

(iv) Interest income

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition *(Continued)*

(v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grant that becomes receivable as compensation for expenses or losses already incurred will be recognised in profit or loss in the period in which it becomes receivable. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(r) Translation of foreign currencies

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

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

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

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

(s) Borrowing costs

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Borrowing costs *(Continued)*

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

(t) Related parties

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

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

(2) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting

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

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

3 CHANGES IN ACCOUNTING POLICIES

The 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 year. 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

4 TURNOVER

The principal activity of the Group is property development.

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

	2012	2011
	RMB'000	RMB'000
Income from sales of properties	**1,553,903**	1,268,124
Revenue from construction contracts	–	8,600
	1,553,903	1,276,724

Turnover from construction contracts represents income arising from development of industrial properties in accordance with designs provided by customers. No revenue from construction contracts was recognised during the year.

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

5 OTHER REVENUE AND OTHER NET INCOME

	2012	2011
	RMB'000	RMB'000
Other revenue		
Gross rental income	**11,685**	7,920
Gain on disposal of property, plant and equipment	–	365
Government subsidy (Note)	**59,049**	250
Others	**12,048**	2,777
	82,782	11,312

Note: Included in the amount of 2012 is a government subsidy of RMB58,749,000 for compensation of imposed plot ratio for a project completed in 2007.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

	2012 RMB'000	2011 RMB'000
Other net income		
Gain on disposal of land	–	205,657

In 2011, pursuant to a resale agreement entered into between a local land bureau in PRC and a subsidiary of the Group, the Group disposed of a piece of land with a carrying value of RMB30,962,000 at a consideration of RMB236,619,000. Accordingly, a gain on disposal of RMB205,657,000 was recognised.

6 PROFIT BEFORE TAXATION

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

	2012 RMB'000	2011 RMB'000
(a) Net financing expenses/(income)		
Interest income (note (i))	**(2,032)**	(1,381)
Exchange gain	**(3)**	–
Finance income	**(2,035)**	(1,381)
Interest expense and other borrowing costs on loans and borrowings wholly repayable within five years (note (i))	**126,673**	70,473
Less: Interest capitalised (note (ii))	**(123,804)**	(69,917)
Net interest expense	**2,869**	556
Exchange loss	**–**	52
Finance expenses	**2,869**	608
Net financing expenses/(income)	**834**	(773)

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

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

(a) Net financing expenses/(income) *(Continued)*

Notes:

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

(ii) Borrowing costs have been capitalised at an average rate of 9.6% per annum (2011: 9.1% per annum).

	2012	2011
	RMB'000	RMB'000
(b) Staff costs		
Wages, salaries and other staff costs	**72,287**	59,301
Contributions to retirement benefits scheme	**5,426**	3,256
Equity settled share-based payment expenses (note 22)	**662**	988
	78,375	63,545

In addition to the above, staff costs of RMB17,269,000 (2011: RMB19,736,000), including contributions to retirement benefits scheme of RMB1,049,000 (2011: RMB1,107,000), are capitalised as properties held for future development and under development.

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

The Group also maintains Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. In accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations, the Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee up to a cap of monthly relevant income of HK$20,000 before 1 June 2012. And commenced from 1 June 2012, the cap of monthly relevant income has been increased to HK$25,000.

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

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

	2012	2011
	RMB'000	RMB'000
(c) Other items		
Depreciation and amortisation	**10,518**	7,839
Auditors' remuneration	**3,013**	3,250
Loss/(gain) on disposal of property, plant and equipment	**111**	(365)
Reversal of provision for impairment losses on other receivables	**(12,290)**	(710)
Operating lease charges on hire of property	**12,683**	14,994
Gross rental income less direct outgoings	**(9,628)**	(6,703)

7 INCOME TAX

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

	2012	2011
	RMB'000	RMB'000
Current tax		
PRC Corporate Income Tax (note 7(c))	**65,391**	39,742
Land Appreciation Tax (note 7(c))	**44,240**	36,453
	109,631	76,195
Deferred tax		
Origination and reversal of temporary differences (note 7(d))	**12,714**	37,059
	122,345	113,254

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX *(Continued)*

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

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

(ii) No Hong Kong Profits Tax has been provided for as the Group's Hong Kong operations have no estimated assessable profits during the year.

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

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

Certain subsidiaries of the Group were subject to CIT calculated based on the deemed profit which represents 13% to 15% (2011: 13% to 15%) of their revenue in accordance with the authorised taxation method（核定徵收）approved by local tax bureau pursuant to the applicable PRC tax regulations. The tax rate was 25% (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 CIT at a rate of 25% (2011: 25%) on estimated assessable profits for the year.

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

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT（中華人民共和國土地增值稅暫行條例）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% (2011: 1% to 5%) of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX *(Continued)*

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

(v) Withholding tax

Withholding taxes are levied on the non PRC-resident entities in respect of dividend distribution arising from profit of PRC subsidiaries earned after 1 January 2008 at a rate of 10%. No deferred tax liabilities were recognised (2011: Nil) for the undistributed earnings of the Group's PRC subsidiaries earned for the year ended 31 December 2012 since it is not probable that they will be distributed to their immediate holding company outside PRC in the foreseeable future.

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

	2012 **RMB'000**	2011 RMB'000
Profit before taxation	**330,378**	331,290
Notional tax on profit before taxation calculated at the rates applicable to the jurisdictions concerned	**83,779**	83,799
Non-taxable income	**–**	(1)
Non-deductible expenses	**17,303**	13,478
Utilisation of tax loss not recognised in prior years	**–**	(1,540)
Land Appreciation Tax	**44,240**	36,453
PRC land appreciation tax deductible for PRC corporate income tax expenses	**(5,113)**	(9,113)
Tax effect of adopting authorised taxation method	**(17,864)**	(9,822)
Actual tax expense	**122,345**	113,254

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX *(Continued)*

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

	The Group	
	2012	2011
	RMB'000	RMB'000
PRC Corporate Income Tax		
At 1 January	**11,007**	35,452
Charged to profit or loss (note 7(a))	**65,391**	39,742
Tax paid	**(56,887)**	(64,187)
At 31 December	**19,511**	11,007
Land Appreciation Tax		
At 1 January	**83,377**	88,287
Charged to profit or loss (note 7(a))	**44,240**	36,453
Tax paid	**(21,834)**	(41,363)
At 31 December	**105,783**	83,377
Total	**125,294**	94,384
Representing:		
Prepaid tax	**16,653**	8,300
Current taxation	**(141,947)**	(102,684)
	(125,294)	(94,384)

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX *(Continued)*

(d) Deferred tax assets/(liabilities)

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

	Revaluation of properties RMB'000	Pre-sale of properties RMB'000	Withholding tax RMB'000	Deductibility of LAT RMB'000	Tax loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	(9,833)	37,341	(19,400)	–	–	–	8,108
(Charged)/credited to the profit or loss (note 7(a))	(11,178)	(28,518)	–	(2,277)	4,330	584	(37,059)
At 31 December 2011	(21,011)	8,823	(19,400)	(2,277)	4,330	584	(28,951)
At 1 January 2012	(21,011)	8,823	(19,400)	(2,277)	4,330	584	(28,951)
(Charged)/credited to the profit or loss (note 7(a))	(22,007)	7,913	–	2,003	(762)	139	(12,714)
At 31 December 2012	(43,018)	16,736	(19,400)	(274)	3,568	723	(41,665)

Representing:

	2012 RMB'000	2011 RMB'000
Deferred tax assets	**24,594**	16,213
Deferred tax liabilities	**(66,259)**	(45,164)
	(41,665)	(28,951)

(e) Deferred tax assets and liabilities not recognised

At 31 December 2012 and 2011, the Group has no material deferred tax assets and liabilities which are not recognised in the financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB186,316,000 (2011: loss of RMB11,134,000) which has been dealt with in the financial statements of the Company.

Details of dividends paid and payable to equity shareholders of the Company are set out in note 21(a).

9 BASIC EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB208,033,000 (2011: RMB218,036,000) and the weighted average of 1,000,000,000 ordinary shares (2011: 1,000,000,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB208,033,000 (2011: RMB218,036,000) and the weighted average number of ordinary shares of 1,000,300,856 shares (2011: 1,000,968,915 shares), calculated as follows:

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

	2012 **RMB'000**	2011 RMB'000
Profit attributable to ordinary equity shareholders (basic and diluted)	**208,033**	218,036

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

	2012 **'000**	2011 '000
Weighted average number of ordinary shares at 31 December	**1,000,000**	1,000,000
Effect of dilutive potential shares – share options	**301**	969
Weighted average number of ordinary shares (diluted) at 31 December	**1,000,301**	1,000,969

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

10 DIRECTORS' REMUNERATION

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

	Directors' fees RMB'000	Basic salaries, housing allowances and other allowances and benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payments RMB'000 (Note)	Total RMB'000
2011						
Executive directors						
Mr. Wu Zhen Shan	–	682	224	14	34	954
Mr. Wu Zhen Ling	–	681	224	14	34	953
Mr. Wu Zhen He	–	695	224	–	34	953
Mr. Zhang Zhen Hai	–	681	224	14	34	953
Independent non-executive directors						
Mr. Tian Chong Hou	–	42	–	–	–	42
Mr. Wang Ping	–	42	–	–	–	42
Mr. Cheung Ying Kwan	–	66	–	–	–	66
	–	2,889	896	42	136	3,963
2012						
Executive directors						
Mr. Wu Zhen Shan	–	682	226	18	24	950
Mr. Wu Zhen Ling	–	682	225	18	24	949
Mr. Wu Zhen He	–	700	225	–	24	949
Mr. Zhang Zhen Hai	–	682	225	18	24	949
Independent non-executive directors						
Mr. Tian Chong Hou	–	41	–	–	–	41
Mr. Wang Ping	–	41	–	–	–	41
Mr. Cheung Ying Kwan	–	65	–	–	–	65
	–	2,893	901	54	96	3,944

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, four (2011: three) are directors whose emoluments are disclosed in note 10. The emolument in respect of the remaining one (2011: two) individual is as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**969**	2,906
Share-based payments	**25**	35
Retirement scheme contributions	**20**	20
	1,014	2,961

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

The emolument of this one (2011: two) individual with the highest emolument is within the following bands:

	2012 Number of individuals	2011 Number of individuals
RMB Nil to RMB1,000,000	**–**	1
RMB1,000,001 to RMB1,500,000	**1**	–
RMB1,500,001 to RMB2,000,000	**–**	1

(b) Emoluments of senior management

Other than the director's remuneration and emoluments of five highest individuals disclosed in note 10 and 11(a), the emoluments of the remaining senior management whose profiles are included in Directors and Senior Management Biographies section of this report fell within the following bands:

	2012 Number of individuals	2011 Number of individuals
RMBNil to RMB1,000,000	**6**	3

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

12 SEGMENT REPORTING

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

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on property development. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented for the year ended 31 December 2012.

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

13 PROPERTY, PLANT AND EQUIPMENT

The Group

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

	Buildings held for own use at cost RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Subtotal RMB'000	Interest in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:									
At 1 January 2012	3,088	137,827	6,632	239	12,213	32,838	192,837	282	193,119
Transfer from properties under development held for sale	12,868	–	–	–	–	–	12,868	–	12,868
Additions	36,560	120,368	–	5	2,331	9,550	168,814	–	168,814
Disposals	(871)	–	–	–	(69)	(1,253)	(2,193)	(282)	(2,475)
At 31 December 2012	51,645	258,195	6,632	244	14,475	41,135	372,326	–	372,326
Accumulated depreciation and amortisation:									
At 1 January 2012	606	–	3,503	198	4,845	18,714	27,866	26	27,892
Charge for the year	2,297	–	1,591	10	1,612	5,007	10,517	1	10,518
Write back on disposals	(210)	–	–	–	(53)	(1,005)	(1,268)	(27)	(1,295)
At 31 December 2012	2,693	–	5,094	208	6,404	22,716	37,115	–	37,115
Net book value:									
At 31 December 2012	48,952	258,195	1,538	36	8,071	18,419	335,211	–	335,211

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	The Group	
	2012	2011
	RMB'000	RMB'000
In PRC, held on leases of		
Between 10 and 50 years	**–**	256

The Group's property, plant and equipment with carrying value of RMB245,804,000 (2011: RMB80,979,000) were pledged as securities for the Group's bank loans (note 23).

14 INVESTMENT PROPERTIES

	The Group
	RMB'000
At 1 January 2011	157,323
Transfer in from completed properties held for sale	59,509
Increase in fair value	60,159
At 31 December 2011	276,991
Representing:	
Valuation	276,991
At 1 January 2012	276,991
Transfer in from completed properties held for sale	80,993
Increase in fair value	75,269
At 31 December 2012	433,253
Representing:	
Valuation	433,253

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

14 INVESTMENT PROPERTIES *(Continued)*

(a) Basis of valuation of investment properties

All investment properties of the Group were revalued as at 31 December 2012 by an independent firm of surveyors, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, who has among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued on an open market value basis calculated by reference to net rental income and allowance for reversionary income potential.

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

	The Group	
	2012	2011
	RMB'000	RMB'000
In PRC		
Long leases	**100,908**	68,084
Medium-term leases	**332,345**	208,907
	433,253	276,991

The Group's investment properties with carrying value of RMB94,032,000 (2011: RMB160,024,000) were pledged as securities for the Group's bank loans (note 23).

In addition to investment properties secured against the Group's bank loans as set out in note 23, at 31 December 2012, investment properties with fair value of RMB98,013,000 were secured against a banking facility of RMB53,000,000 of Hebei Tianshan Industrial Group Construction Engineering Company Limited ("Tianshan Construction"), a company wholly owned by the controlling shareholders of the Group.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

14 INVESTMENT PROPERTIES *(Continued)*

(c) Investment properties leased out under operating leases

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

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

	2012 **RMB'000**	2011 RMB'000
Within 1 year	**4,843**	2,600
After 1 year but within 5 years	**6,092**	4,487
After 5 years	**59,521**	44,685
	70,456	51,772

15 INTEREST IN SUBSIDIARIES

	The Company	
	2012 **RMB'000**	2011 RMB'000
Unlisted shares, at cost	**160**	160
Amount due from a subsidiary	**304,274**	146,376
	304,434	146,536

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

15 INTEREST IN SUBSIDIARIES *(Continued)*

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

Name of company	Place of incorporation and operation	Issued and fully paid share capital/ paid-in capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities	Legal form
Tian Shan International Investment Company Limited	The British Virgin Islands	US$20,000	100%	–	Investment holding	Limited liability company
Tian Shan Real Estate Development Company Limited ("Tian Shan Real Estate")	Hebei, the PRC	RMB510,000,000	–	100%	Property development	Wholly owned foreign enterprise
Dragon China Engineering Limited	Hong Kong	HK$1	–	100%	Inactive	Limited liability company
Sanhe Hengji Real Estate Development Company Limited	Hebei, the PRC	RMB20,000,000	–	100%	Property development	Limited liability company
Tianjin Tian Shan Real Estate Development Company Limited	Tianjin, the PRC	RMB153,000,000	–	100%	Property development	Limited liability company
Weihai Tian Shan Real Estate Development Company Limited	Shangdong, the PRC	RMB105,000,000	–	100%	Property development	Limited liability company
Tian Shan (Hong Kong) Limited	Hong Kong	US$10,000	–	100%	Inactive	Limited liability company
Hebei Tianhu Travel Development Company Limited	Hebei, the PRC	RMB3,000,000	–	100%	Inactive	Limited liability company
Shan Ling Hai He Property Company Limited	Hebei, the PRC	RMB50,000,000	–	100%	Inactive	Limited liability company
Hebei Tianshan Rongshun Private Equity Funds Management Company Limited	Hebei, the PRC	RMB10,000,000	–	100%	Inactive	Limited liability company
Tianjin Tian Shan Mi Li Fang Commerce and Trading Company Limited	Tianjin, the PRC	RMB10,000,000	–	100%	Inactive	Limited liability company
Zanhuang Hengji Manufacturing Company Limited	Hebei, the PRC	RMB1,000,000	–	100%	Inactive	Limited liability company

16 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2012	2011
	RMB'000	RMB'000
Properties held for future development for sale	**236,073**	287,958
Properties under development for sale	**2,232,423**	2,311,136
Completed properties held for sale	**1,081,816**	787,161
	3,550,312	3,386,255

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

	The Group	
	2012	2011
	RMB'000	RMB'000
In PRC, held on leases of		
Over 50 years	**1,281,461**	1,227,857
Between 10 and 50 years	**18,184**	23,904
	1,299,645	1,251,761

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

16 INVENTORIES *(Continued)*

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Properties held for future development for sale	**234,812**	287,958
Properties under development for sale	**431,659**	539,561
	666,471	827,519

(d) Certain portion of the Group's properties for sale was pledged against bank and other loans, details are set out in notes 23 and 24.

(e) The cost of inventories sold for the year amounted to RMB1,159,424,000 (2011: RMB1,023,937,000).

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

(g) In addition to properties for sale secured against the Group's bank and other loans as set out in notes 23 and 24, properties for sale with a carrying value of RMB12,421,000 was secured against a banking facility of RMB22,300,000 of Tianshan Construction. Such amount has been fully repaid during 2012.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (note (a))	**64,380**	18,352	**–**	–
Deposits, prepayments and other receivables (note (c))	**867,233**	943,599	**1,602**	1,101
Gross amount due from customers for contract work (note (d))	**–**	1	**–**	–
	931,613	961,952	**1,602**	1,101

All of the trade and other receivables, except rental deposits amounting to RMB3,370,000 (2011: RMB4,254,000), are expected to be recovered within one year.

(a) Ageing analysis

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

	2012	2011
	RMB'000	RMB'000
Current or less than 1 month overdue	**61,452**	16,756
3 months to 1 year overdue	**2,928**	1,596
	64,380	18,352

Trade receivables are due within 0 – 30 days from date of billing. Further details on the Group's credit policy are set out in note 26(b).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis *(Continued)*

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) Impairment of other receivable

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

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

	The Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**13,805**	14,515
Reversal of impairment loss	**(12,290)**	(710)
At 31 December	**1,515**	13,805

The Group's other receivables which were individually determined to be impaired were RMB1,515,000 (2011: RMB13,805,000). The Group does not hold any collateral over these balances.

(c) Included in deposits, prepayments and other receivables were prepayments for leasehold land costs of RMB253,797,000 (2011: RMB453,401,000).

At 31 December 2012, an amount of RMB345,000,000 (2011: RMB310,000,000) was paid as deposits for redevelopment of an village in Shijiazhuang and included in other receivables of the Group.

(d) The aggregate amount of costs incurred plus recognised profits to date, included in the gross amount due from/to customers for contract work at 31 December 2012, is RMB nil (2011: RMB13,926,000).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

18 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.

19 CASH AND CASH EQUIVALENTS

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

20 SHARE CAPITAL

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

	The Group and the Company	
	2012	2011
	HK'000	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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

20 SHARE CAPITAL *(Continued)*

(c) The Company previously issued certain senior notes together with warrants bearing a share conversion option. On 15 July 2010, upon the listing of Company's shares on the Stock Exchange, 62,440,000 ordinary shares of HK$0.1 each were issued to the holders of senior notes of the Company upon the mandatory conversion of part of the senior notes.

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

(e) Capital management

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

20 SHARE CAPITAL *(Continued)*

(e) Capital management *(Continued)*

The net debt to equity ratios at 31 December 2012 and 2011 are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Non-current liabilities		
Bank loans	**175,500**	365,800
Other loans	**546,295**	135,675
	721,795	501,475
Current liabilities		
Bank loans	**539,050**	225,200
Other loans	**454,555**	137,075
	993,605	362,275
Total debt	**1,715,400**	863,750
Less: Cash and cash equivalents	**(618,883)**	(180,469)
Net debt	**1,096,517**	683,281
Total equity	**1,506,305**	1,334,465
Net debt to equity ratio	**0.73**	0.51

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 RESERVES AND DIVIDENDS

(a) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the year*

	2012 RMB'000	2011 RMB'000
Final dividend proposed after the end of the balance sheet date of HK1.5 cents (equivalent to RMB1.20 cents) per ordinary share (2011: HK3.5 cents (equivalents to RMB2.84 cents) per ordinary share	**12,000**	28,406

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

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.5 cents (equivalents to RMB2.85 cents) per ordinary share (2011: Nil)	**28,473**	–
Special dividend declared and paid of HK1 cent (equivalent to RMB0.82 cent) per ordinary share (2011: HK1.5 cents (equivalent to RMB1.23 cents) per ordinary share)	**8,159**	12,276
	36,632	12,276

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 RESERVES AND DIVIDENDS *(Continued)*

(b) Share premium

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

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

(c) Exchange reserve

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

(d) Other capital reserve

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

(e) PRC statutory reserve

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

(f) Share-based compensation reserve

Share-based compensation reserve represents the fair value of services in respect of share options granted under the Pre-IPO share option scheme as set out in note 22.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 RESERVES AND DIVIDENDS *(Continued)*

(g) Distributability of reserves

At 31 December 2012, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company at 31 December 2012 was RMB206,443,000 (2011: RMB56,778,000).

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

(h) Reserves of the Company

	Note	Share premium RMB'000 (note 21(b))	Exchange reserve RMB'000 (note 21(c))	Share-based compensation reserve RMB'000 (note 21(f))	Accumulated loss RMB'000	Total RMB'000
At 1 January 2011		271,634	(2,105)	1,051	(185,330)	85,250
Changes in equity for 2011						
Loss for the year		–	–	–	(11,134)	(11,134)
Exchange difference on translation of financial statements		–	(6,098)	–	–	(6,098)
Total comprehensive income for the year		–	(6,098)	–	(11,134)	(17,232)
Equity settled share-based payment		–	–	1,036	–	1,036
Dividends declared and paid	21(a)(ii)	(12,276)	–	–	–	(12,276)
		(12,276)	–	1,036	–	(11,240)
At 31 December 2011		259,358	(8,203)	2,087	(196,464)	56,778

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 RESERVES AND DIVIDENDS *(Continued)*

(h) Reserves of the Company *(continued)*

	Note	Share premium RMB'000 (note 21(b))	Exchange reserve RMB'000 (note 21(c))	Share-based compensation reserve RMB'000 (note 21(f))	Accumulated loss RMB'000	Total RMB'000
At 1 January 2012		259,358	(8,203)	2,087	(196,464)	56,778
Changes in equity for 2012						
Profit for the year		–	–	–	186,316	186,316
Exchange difference on translation of financial statements		–	(681)	–	–	(681)
Total comprehensive income for the year		–	(681)	–	186,316	185,635
Equity settled share-based payment		–	–	629	33	662
Dividends approved in respect of the previous year	21(a)(ii)	(28,473)	–	–	–	(28,473)
Special dividend declared in respect of the current year	21(a)(ii)	(8,159)	–	–	–	(8,159)
		(36,632)	–	629	33	(35,970)
At 31 December 2012		222,726	(8,884)	2,716	(10,115)	206,443

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22 EQUITY SETTLED SHARE-BASED TRANSACTION

(a) Pre-IPO share options

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

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

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

	2012		2011	
	Exercise price HK$	**Number of options**	Exercise price HK$	Number of options
Outstanding at 1 January	**0.7**	**5,900,000**	0.7	5,900,000
Forfeited during the year	**0.7**	**190,000**	–	–
Outstanding at 31 December	**0.7**	**5,710,000**	0.7	5,900,000
Exercisable at 31 December	**0.7**	**1,713,000**	0.7	1,180,000

The options outstanding at 31 December 2012 had an average exercise price of HK$0.7 (2011: HK$0.7) and a weighted average remaining contractual life of 2.4 years (2011: 3.2 years).

No option were exercised during the year ended 31 December 2012 (2011: Nil).

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23 BANK LOANS – SECURED

(a) At 31 December 2012, bank loans were repayable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within one year or on demand	**539,050**	225,200
After one year but within two years	**45,500**	90,300
After two years but within five years	**130,000**	275,500
	175,500	365,800
	714,550	591,000

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the bank loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 26(c). As at 31 December 2012, none of the covenants relating to bank loans had been breached (2011: $ nil).

(b) At 31 December 2012, assets of the Group secured against bank loans are analysed as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Properties held for future development for sale	**127,493**	–
Properties under development for sale	**376,801**	330,314
Completed properties held for sale	**413,460**	185,990
Property, plant and equipment	**245,804**	80,979
Investment properties	**–**	160,024
Restricted cash	**22,400**	–
	1,185,958	757,307

As at 31 December 2012, RMB779,600,000 (2011: RMB501,600,000) of the RMB891,000,000 (2011: RMB641,000,000) total banking facility was utilised by the Group.

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(Expressed in Renminbi unless otherwise indicated)

23 BANK LOANS – SECURED *(Continued)*

(c) The effective interest rates per annum at 31 December 2012 ranged from:

	The Group	
	2012	2011
	%	%
Bank loans	**5.60-7.98**	5.88-8.48

24 OTHER LOANS – SECURED

(a) At 31 December 2012, other loans were repayable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within one year or on demand	**454,555**	137,075
After one year but within two years	**546,295**	135,675
	1,000,850	272,750

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(Expressed in Renminbi unless otherwise indicated)

24 OTHER LOANS – SECURED *(Continued)*

(b) At 31 December 2012, assets of the Group secured against other loans are analysed as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Properties held for future development for sale	**43,716**	31,890
Properties under development for sale	**1,115,732**	262,250
Completed properties held for sale	**142,002**	18,840
Investment properties	**94,032**	–
	1,395,482	312,980

As at 31 December 2012, RMB346,850,000 (2011: RMB150,750,000), of the RMB400,000,000 (2011: RMB400,000,000) total other loan facility was utilised by the Group.

In addition to assets of the Group secured against other loans as set above, certain properties with total carrying value of RMB114,426,000 were provided by Tianshan Construction as security for a banking facility of RMB360,000,000 of the Group. No guarantee fee is paid to Tianshan Construction for such provision of security.

(c) The effective interest rates per annum at 31 December 2012 ranged from:

	The Group	
	2012	2011
	%	%
Other loans	**10.96 – 13.00**	5.00 – 16.50

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (note (a))	**83,898**	87,758	**–**	–
Receipts in advance (note (b))	**1,288,673**	1,104,803	**–**	–
Other payables and accruals (notes (c), (d) and (e))	**1,089,726**	1,450,231	**2,268**	2,378
Amounts due to the ultimate holding company (note (f))	**12,944**	2,457	**12,955**	2,457
Amounts due to related parties (note (f))	**32,859**	37,839	**–**	–
Designated loan (note (g))	**20,000**	–	**–**	–
	2,528,100	2,683,088	**15,223**	4,835

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Due within 1 month or on demand	**83,898**	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 RMB65,195,000 (2011: RMB49,171,000).

(c) Included in other payables and accruals of the Group were retention payables which were expected to be settled after more than one year amounted to RMB118,936,000 (2011: RMB91,054,000).

(d) Included in other payables and accruals were accrued construction costs to Tianshan Construction amounted to RMB158,716,000 (2011: RMB206,669,000).

(e) Included in other payables and accruals were provision for additional settlement fees of RMB52,373,000 (2011: Nil) as regards the resettlement plan of the Group's project.

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

(g) Designated loan is secured by the Group's properties under development for sale with carrying amount of RMB79,558,000, interest-free and repayable within one year.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 FINANCIAL INSTRUMENTS

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

(a) Interest rate risk

The interest rates and terms of repayment of bank loans and other loans of the Group are disclosed in notes 23 and 24. The Group does not carry out any hedging activities to manage its interest rate exposure. A reasonably possible increase/decrease of 100 basis points interest rates would decrease/increase Group's profit by RMB9.3 million (2011: decrease/increase by RMB5.2 million).

(b) Credit risk

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 FINANCIAL INSTRUMENTS *(Continued)*

(c) Liquidity risk

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

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

	2012				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Bank loans	714,550	792,764	582,675	55,266	154,823
Other loans	1,000,850	1,147,616	565,168	582,448	–
Trade payables	83,898	83,898	83,898	–	–
Other payables and accruals	1,109,726	1,109,726	938,417	171,309	–
Amounts due to the ultimate holding company	12,944	12,944	12,944	–	–
Amounts due to related parties	32,859	32,859	32,859	–	–
Tax payable	141,947	141,947	141,947	–	–
	3,096,774	3,321,754	2,357,908	809,023	154,823

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 FINANCIAL INSTRUMENTS *(Continued)*

(c) Liquidity risk *(Continued)*

	2011				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Bank loans	591,000	646,061	256,428	111,485	278,148
Other loans	272,750	304,755	153,959	150,796	–
Trade payables	87,758	87,758	87,758	–	–
Other payables and accruals	1,399,938	1,399,938	1,308,884	91,054	–
Amounts due to the ultimate holding company	2,457	2,457	2,457	–	–
Amounts due to related parties	37,839	37,839	37,839	–	–
Tax payable	102,684	102,684	102,684	–	–
	2,494,426	2,581,492	1,950,009	353,335	278,148

(d) Foreign exchange risk

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

(e) Fair value

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements are set out as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Authorised but not contracted for	**5,758,707**	6,307,329
Contracted but not provided for	**2,217,681**	2,148,966
	7,976,388	8,456,295

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

(b) Significant leasing arrangements in respect of land and buildings and land held under operating leases are described in notes 13, 14 and 16.

(c) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**11,071**	15,014
After 1 year but within 5 years	**1,312**	15,366
	12,383	30,380

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 CONTINGENT LIABILITIES

	The Group	
	2012	2011
	RMB'000	RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (note (i))	**2,314,300**	1,901,300
Guarantee provided to a bank in respect of facility granted to a related party (note (ii))	**68,400**	–
	2,382,700	1,901,300

Notes:

(i) The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default in the mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to banks. The Group's guarantee period commences from the dates of grants of the relevant mortgage loans and ends after the purchasers obtain the individual property ownership certificates of the properties purchased. The maximum amounts of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at 31 December 2012 are RMB2,314,300,000.

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.

(ii) The Company and its subsidiary, Tian Shan Real Estate, jointly entered into an 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 as set out in note 14(b), in favour of a banking facility of RMB53,000,000 to Tianshan Construction. Under the guarantee, the Company and Tian Shan Real Estate shall unconditionally guarantee to pay the indebtedness, including: (i) the principal amount of the facility; (ii) the accrued interest during the term of facility and overdue interest that may incurred; and (iii) any expenses and fees incurred by the bank to enforce the guarantee.

As at 31 December 2012, the aggregate amount drawn under the banking facility by Tianshan Construction amounted to RMB53,000,000. The guarantee amount represents the potential maximum exposure of the Group in accordance with the above guarantees.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances and transactions disclosed elsewhere in the financial statements, the Group had the following significant transactions with related parties:

(a) Transactions with the Group's affiliated companies and their directors

	The Group	
	2012	2011
	RMB'000	RMB'000
Construction cost (note (i))	**133,433**	472,181
Rental expense (note (ii))	**386**	386
Guarantee fee income (note (iii))	**(1,000)**	(570)

Notes:

(i) The Group received construction services rendered by Tianshan Construction, a company wholly owned by the controlling shareholders of the Group. The directors consider that the terms of such work were carried out on normal commercial terms and in the ordinary course of the Group's business, except for a longer credit term granted to the Group.

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

(iii) The balance represents the guarantee fee received from Tianshan Construction in respect of properties for sales and investment properties of the Group secured against a banking facility of Tianshan Construction as set out in note 14(b) and 16(g).

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

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

(b) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of construction cost in (a)(i) and guarantee fee income in (a)(iii) constitute connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Reports of the directors.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Key sources of estimation uncertainty are as follows:

(a) Impairment provision for buildings and construction in progress

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(c) Impairment for trade and other receivables

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(f) Valuation of investment properties

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

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

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the potential impact of adoption of them is as follows:

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The application of IFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in IFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

Particular of Properties

PROPERTIES UNDER DEVELOPMENT

	Name of property	Location	Type	Approximate total site area (sq.m.)	Approximate areas under development (sq.m.)	Stage of completion	Interest attributable to the Group	Estimate project completion date
1	Tianjin Tian Shan Wonderful Waterside View (Phase I)	Xiaozhan Town, Jinnan District, Tianjin, China	Residential/ commercial	243,714	162,473	Superstructure	100%	December 2013
2	Tian Shan Long Hu Wan (Phase I)	The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China	Residential/ commercial	41,936	20,120	Superstructure	100%	December 2013
3	Tian Shan Long Hu Wan (Phase II)	The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China	Residential/ commercial	49,313	15,673	Superstructure	100%	December 2013
4	Yuanshi Waterside View	Changshan Road, Yuanshi County	Residential	93,334	70,837	Superstructure	100%	December 2015
5	Tianjin Tian Shan Wonderful Waterside View (Phase II)	Xiaozhan Town, Jinnan District, Tianjin, China	Residential/ commercial	502,965	80,794	Superstructure	100%	May 2016
6	Weihai Tian Shan Contemporary Noble Territory	Wendeng Economics Development Zone, Shandong Province, China	Residential/ commercial	112,450	22,064	Superstructure	100%	December 2013
7	Weihai Tian Shan Waterside View (Phase I)	Wendeng City, Shangdong Province, China	Residential/ commercial	79,860	115,466	Superstructure	100%	December 2013
8	Tian Shan Long Hu Wan (Phase III)	The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China	Residential/ commercial	65,333	3,137	Foundation	100%	December 2015
9	Tian Shan Science and Technology Industrial Park	No. 319 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China	Commercial	40,372	68,354	Superstructure	100%	December 2014
10	Weihai Tian Shan International Enterprise Base	Wendeng Economics Development Zone, Shandong Province, China	Industrial	266,570	36,961	Superstructure	100%	December 2013
11	Ningjin Tian Shan Wonderful Waterside View	Intersection of Xinxing Road and Tianbao Street, Ningjin County, Xingtai, Hebei Province, China	Residential/ commercial	93,328	65,626	Superstructure	100%	December 2014
12	Tianshan Auspicious Lake	Intersection of Xiangjiang Road and Kunlun Street, Shijiazhuang	Residential/ commercial	106,696	99,062	Superstructure	100%	December 2014
13	Sanhe Tian Shan International Enterprise Base	Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China	Industrial	181,198	12,149	Foundation	100%	December 2015
Total				**1,877,069**	**772,716**			

Particular of Properties

PROPERTIES HELD FOR INVESTMENT

	Name of property	Location	Type	Approximate gross floor area (sq.m.)	Interest attributable to the Group	Lease term
1	Tian Shan Waterside View (Phase IV)	No. 218 Zhufeng Avenue, Shijiazhuang, Hebei Province, China	Commercial	9,276	100%	Long term
2	Tian Shan Science and Technology Industrial Park	No. 319 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China	Apartment	53,145	100%	Medium term
	Tian Shan Science and Technology Industrial Park	No. 320 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China	Commercial	14,885	100%	Medium term
3	Contemporary Noble Territory	No. 9 Juxin Road, Xinhua District, Shijiazhuang, Hebei province, China	Commercial	5,585	100%	Medium term
4	Sanhe Tian Shan International Enterprise Base	Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China	Apartment	18,210	100%	Medium term
	Sanhe Tian Shan International Enterprise Base	Sanhe Yanjiao Economic Technical Development Zone, Sanhe City, Hebei Province, China	Commercial	5,872	100%	Medium term
	Chengde Office Building	Cuiqiao Road, Shuangqiao District, Chengde City, Hebei Province, China	Commercial	6,405	100%	Long term
Subtotal				**113,378**		

PROPERTIES HELD FOR SALE

	Name of property	Location	Type	Approximate gross floor area (sq.m.)	Approximate number of car parking spaces	Interest attributable to the Group	Lease term
1	Contemporary Noble Territory	No. 9 Juxin Road, Xinhua District, Shijiazhuang, Hebei province, China	Residential	6,249	1	100%	Long term
2	Tianjin Tian Shan Wonderful Waterside View (Phase I)	Xiaozhan Town, Jinnan District, Tianjin, China	Residential/ commercial	104,946	–	100%	Long term
3	Tianjin Tian Shan Wonderful Waterside View (Phase II)	Xiaozhan Town, Jinnan District, Tianjin, China	Residential/ commercial	22,758	–	100%	Long term
4	Chengde Tian Shan Wonderful Waters View	Cuiqiao Road, Shuangqiao District, Chengde City, Hebei Province, China	Residential/ commercial	26,251	68	100%	Long term
5	Tian Shan Waterside View (Phase IV)	No. 218 Zhufeng Avenue, Shijiazhuang, Hebei Province, China	Residential	1,298	11	100%	Long term
7	Tian Shan Long Hu Wan (Phase I)	The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China	Residential	5,659	–	100%	Long term
8	Tian Shan Long Hu Wan (Phase II)	The south coast of Panlong Lake, Yuanshi County, Shijiazhuang, Hebei Province, China	Residential	10,984	–	100%	Long term
9	Yuanshi Waterside View	Changshan Road, Yuanshi County	Residential	12,950	–	100%	Long term
10	Weihai Tian Shan Contemporary Noble Territory	Wendeng Economics Development Zone, Shandong Province, China	Residential/ commercial	41,602	–	100%	Long term
11	Weihai Tian Shan Waterside View (Phase I)	Wendeng City, Shangdong Province, China	Residential/ commercial	15,535	–	100%	Medium term
12	Tian Shan Science and Technology Industrial Park	No. 319 Xiangjiang Road, Shijiazhuang Hi-tech Industry Development Zone, Hebei Province, China	Commercial	10,262	71	100%	Medium term
Subtotal				**258,494**	**151**		

FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
Turnover	648,174	752,592	1,159,854	1,276,724	**1,553,903**
Cost of sales	(382,607)	(502,391)	(780,783)	(1,027,228)	**(1,161,263)**
Gross profit	265,567	250,201	379,071	249,496	**392,640**
Other revenue	1,747	2,017	9,937	11,312	**82,782**
Other net income	–	–	–	205,657	**–**
Selling and marketing expenses	(38,626)	(34,949)	(65,647)	(71,312)	**(88,899)**
Administrative expenses	(63,687)	(46,638)	(77,098)	(124,795)	**(130,580)**
Profit from operations	165,001	170,631	246,263	270,358	**255,943**
Change in fair value of derivative financial instruments	6,222	21,301	–	–	**–**
Finance income	1,389	886	2,206	1,381	**2,035**
Finance expenses	(8,593)	(7,366)	(296)	(608)	**(2,869)**
Net financing (expenses)/income	(982)	14,821	1,910	773	**(834)**
Profit before change in fair value of investment properties and income tax	164,019	185,452	248,173	271,131	**255,109**
Increase in fair value of investment properties	–	–	94,201	60,159	**75,269**
Profit before taxation	164,019	185,452	342,374	331,290	**330,378**
Income tax	(52,670)	(55,414)	(142,883)	(113,254)	**(122,345)**
Profit for the year	111,349	130,038	199,491	218,036	**208,033**
Earning per share (RMB cents)					
– Basic (note i)	126.19	18.91	23.95	21.80	**20.80**
– Diluted	N/A	N/A	23.95	21.78	**20.80**

FINANCIAL SUMMARY

CONSOLIDATED ASSETS AND LIABILITIES

	31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total non-current assets	26,266	50,519	218,533	458,431	**793,058**
Total current assets	2,200,123	2,626,230	3,397,387	4,570,720	**5,164,953**
Total assets	2,226,389	2,676,749	3,615,920	5,029,151	**5,958,011**
Total non-current liabilities	494,207	182,400	451,213	546,639	**788,054**
Total current liabilities	1,294,177	1,926,320	2,036,149	3,148,047	**3,663,652**
Total liabilities	1,788,384	2,108,720	2,487,362	3,694,686	**4,451,706**
Net assets	438,005	568,029	1,128,558	1,334,465	**1,506,305**

Note:

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